

CITY OF MORRO BAY, CA

ASSESSMENT OF CITY ORGANIZATION AND FINANCIAL OPTIONS

May 2008



MANAGEMENT PARTNERS
INCORPORATED

May 5, 2008

Ms. Andrea K. Lueker
Interim City Manager
City of Morro Bay
595 Harbor Street
Morro Bay, CA 93442

Dear Ms. Lueker:

Management Partners is pleased to present this report of our assessment of the City's organization, with a particular focus upon financial options for deficit reduction.

As you are well aware, the City is in a difficult financial situation. Expenses for providing public services have increased faster than City revenues, and the City lags in some important general revenue sources such as sales tax. At the crux of the City's financial position is the very vision of the City and its future. Morro Bay will need to establish a clear vision of what it can and should do, establish service priorities, and determine if residents are willing to increase revenues to pay for City service levels or face the prospects of disincorporating the existing City and accepting County service levels. The effort to address these problems will require consistent direction and clear priority setting from the City Council and top management.

In this report we have recommended numerous expenditure reduction and revenue enhancing strategies. If the majority of the recommendations are followed, our financial model shows that the City can sustain itself for another 10 years at least. Long term improvements will require economic development efforts to raise sales tax revenues and related revenues. The City is well-positioned to achieve success in this area, but again it will take consistent leadership.

We look forward to continued discussion of this report and its recommendations with you and the City Council.

Thank you for your support of this project. We also greatly appreciate the staff members who gave their time, insight and expertise for this report. They were accommodating and responsive. We look forward to assisting the City in implementing these recommendations.

Sincerely,

Andrew S. Belknap
Regional Vice President

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
PROJECT APPROACH	3
DOCUMENT REVIEW	3
INTERVIEWS.....	3
BENCHMARKING.....	4
ONLINE SURVEYS	4
CITY EMPLOYEE FOCUS GROUPS	5
FINANCIAL MODELING	5
BACKGROUND	7
FIVE YEAR SUMMARY OF GENERAL FUND POSITION.....	7
ACTIONS TAKEN TO DATE BY THE CITY	13
ANALYSIS AND RECOMMENDATIONS	15
BENCHMARKING FINDINGS	15
PROJECTED FISCAL SITUATION	30
ONLINE SURVEY RESULTS	31
EMPLOYEE FOCUS GROUP RESULTS	36
FINANCIAL MODEL AND OUTLOOK.....	40
THE NO CITY ALTERNATIVE.....	43
DEVELOPMENT OF STRATEGIES.....	44
SUMMARY OF OPERATIONAL CHANGE COST IMPACTS	74
REVENUE ENHANCEMENT OPTIONS	74
SUMMARY OF SHORT-TERM TURNAROUND STRATEGY	78
LONG-RANGE STRATEGY	83
CONCLUSION.....	87
ATTACHMENT A – SUMMARY LIST OF RECOMMENDATIONS	89
ATTACHMENT B: ONLINE SURVEY RESULTS.....	93
ATTACHMENT C: EMPLOYEE FOCUS GROUP RESULTS	113

TABLES

Table 1: Peer Cities and Populations	15
Table 2: Survey Response to the Question: “How closely do you follow the news about Morro Bay city government and the city budget?”	33
Table 3: Survey Response to Budget Resolution Strategies	33
Table 4: Responses Indicating for Too Much or Too Little Spending	35
Table 5: Focus Group Attendees	36
Table 6: Current City Advertising and Promotion Expenditures	46
Table 7: Harbor Department Estimated Revenues for FY09	48
Table 8: Police Service Costs – FY 2008	53
Table 9: Fire Service Costs – FY 2008	54
Table 10: Police Staffing and Estimated Workload – FY 2008	55
Table 11: Fire Staffing and Workload FY 2008	59
Table 12: Cost Analysis of 2005 Proposal (adjusted for inflation) by San Luis Obispo County Sheriff to Provide Police Services in Morro Bay at Traditional County Levels	62
Table 13: Cost Analysis of 2005 Proposal (adjusted for inflation) by San Luis Obispo County Sheriff to Provide Police Services in Morro Bay at Morro Bay Police Department Levels	63
Table 14: Cost of Sheriff’s services (based on 2005 proposal) using reduced night staffing	64
Table 15: FY08 General Fund Subsidy to Recreation Program	71
Table 16: Peer Comparison of Park and Recreation Program Costs, FY07-08	72
Table 17: Expenditure Assumptions Included in Financial Model	74
Table 18: Basic Assumptions for Financial Model	79
Table 19: Five Alternatives for Financial Model	80

FIGURES

Figure 1: General Fund Revenues and Expenditures	7
Figure 2: General Fund Reserve Balance	8
Figure 3: Rate of General Fund Revenue Growth Compared to Rate of Inflation	9
Figure 4: Morro Bay and San Luis Obispo Revenue Growth.....	10
Figure 5: Per Capita Property Tax Revenue in 2007 dollars	11
Figure 6: Real Per Capita Sales Tax Revenue in 2007 Dollars.....	12
Figure 7: Transit Occupancy Tax Revenue (millions).....	13
Figure 8: General Fund revenues per capita	16
Figure 9: Property Taxes as Percent of General Fund Revenues.....	17
Figure 10: Sales Taxes as Percent of Total General Fund Revenues	18
Figure 11: Per Capita Sales Tax Revenues Over Time.....	18
Figure 12: TOT as Percent of Total General Fund Revenues	19
Figure 13: Franchises as Percent of Total General Fund Revenues.....	20
Figure 14: General Fund Expenditures per Capita	21
Figure 15: General Fund Employees per 1,000 Residents*	22
Figure 16: Peer Comparison of Per Capita Income	23
Figure 17: Peer Comparison of Violent Crime Rates.....	24
Figure 18: Peer Comparison of Property Crime Rates	25
Figure 19: Recreation and Community Service Expenditures per Capita	26
Figure 20: Public Works and Utilities Expenditures per Capita	27
Figure 21: Public Safety Expenditures per Capita	28
Figure 22: Planning and Community Development Expenditures per Capita	29
Figure 23: General Government Expenditures per Capita	30
Figure 24: Projected General Fund Revenue and Expenditures Assuming Status Quo Operations – Keeping Pace with Inflation.....	31
Figure 25: Ranked Choices for Top Budget Spending Priorities (Weighted)	34
Figure 26: Ranked Choices for Willingness of Cutbacks (Weighted)	34
Figure 27: General Fund Annual Deficit Trend, FY09-18	41
Figure 28: Cumulative General Fund Revenues Less Expenditures (millions)	42

Figure 29: Morro Bay Chamber of Commerce Contributions Over Time	46
Figure 30: Model Results: Annual General Fund Revenues Less Expenses	81
Figure 31: Model Results – Cumulative Effect on the General Fund Balance.....	82
Figure 32: Cumulative Effect on the General Fund Balance of Implementing Alternative 5	85

EXECUTIVE SUMMARY

The City of Morro Bay is in a difficult financial position and is unable to continue with status quo operations. Many tough budgetary choices have already been made – and yet the financial picture continues to grow bleaker.

The City is facing a persistent General Fund structural deficit, which is of great concern to City leaders. Residents complain of deteriorating infrastructure. Operating departments have been stretched so thin that, in some cases, they are unable to continue to provide service in a safe and effective manner.

Recognizing that the solution to this persistent problem required that difficult political choices be made, the City defined a process through which a qualified consulting firm would provide advice about the development of solutions, both to decrease expenditures and increase revenues. Management Partners was hired to facilitate this discussion, gather input from City staff about potential strategies, conduct data analysis in the form of peer benchmarking comparisons, and identify best alternatives using a dynamic financial model.

Several strategies have been identified as useful and feasible and are proposed for consideration by the City. By pursuing many of these strategies in conjunction with expenditure reductions or transfers, the City has the opportunity to eliminate its General Fund structural deficit for the next 10 years.

Our review shows that the City of Morro Bay has the lowest sales tax among its peers, while having average Transit Occupancy Tax (TOT) revenues. This shows that visitors to Morro Bay are not spending much during their stay. The City is subsidizing parks and recreation programs, the local Chamber of Commerce, and the trolley at a level greater than its peers. Several new fees are available as options to increase revenues, including 911 fees or taxes, user utility tax, parcel tax, and lighting and landscaping district fees.

Additionally, as we reviewed the City's practices regarding user fees, we noted that there has not been a recent overhead optimization study to ensure that all costs are covered by applicable user fees, i.e., so that the General Fund is relieved of costs that can appropriately be paid for by user fees.

Our report provides strategies for increasing revenue and reducing or shifting costs as a means for eliminating the structural budget deficit. No one or two strategies will be sufficient, given the size and nature of the structural deficit but, rather, a combination of expenditure reduction and revenue enhancement strategies must be pursued. A list of all Management Partners recommendations can be found in Attachment A to this report.

An open forum and public discussion of the various strategies which follow in this report will allow City decision makers to chart a feasible course for improving the City's fiscal health for the next 10 years. It will take several months of more dedicated effort and further analysis to actually fashion a plan, and several years to fully implement solutions.

PROJECT APPROACH

Management Partners used a number of analytical and management techniques for this project, as described below. The combined steps enabled Management Partners to receive high-quality stakeholder input and suggestions on potential strategies, gain full understanding of the context of the City's financial crisis, and compare and contrast Morro Bay against other peer jurisdictions. With this information in hand, we were then able to consider each proposed strategy in order to determine which were viable as recommended strategies for improving the City's financial condition.

Document Review

Management Partners acquired background information relevant to understanding the City's current fiscal status and environment through document review. This included information about the City's budgeting methods, revenue sources and trends, expenditure allocations and trends, and labor environment. We reviewed budgeting approaches and tested budget assumptions against actual experience and identified various trends.

Interviews

Management Partners interviewed key managers on the City staff for this review. Those interviewed included (in alphabetical order):

- Bruce Ambo, Public Services Director
- Rick Algert, Harbor Director
- Bill Boucher, Capital Projects Manager
- Janeen Burlingame, Management Analyst
- John DeRohan, Police Chief
- Steve Doerr, IT Manager
- Eric Endersby, Harbor Operations Manager
- Bruce Keogh, Waste Water Treatment Plant Division Manager
- Rob Livick, City Engineer
- Andrea Lueker, Interim City Manager
- Tim Olivas, Police Commander
- Mike Pond, Fire Chief
- Mike Prater, Senior Planner

- George Rees, Fire Captain
- Rob Schultz, City Attorney
- Susan Slayton, Finance Director
- Joe Woods, Acting Parks and Recreation Director

Personal interviews afford an opportunity to learn about the City's situation, history, and culture, and to discuss different perceptions of the key issues which are impacting the City's financial condition.

Benchmarking

As part of the review, Management Partners, in consultation with the City, created a list of peer jurisdictions with which we could compare and contrast the City of Morro Bay. Benchmarking provides general comparisons which are useful in pointing out any significant variances from the experiences of peers.

Management Partners selected 10 communities to serve as "peers" for purposes of comparison. Cities in San Luis Obispo County having a population within 50% of that of Morro Bay and/or having harbor activities were included. Coincidentally, this included all the large cities in San Luis Obispo County.

Using publicly available information, Management Partners compared various taxes and revenues, programs, and statistics among the peers and contrasted the results against Morro Bay. Results are discussed in the "Benchmarking Findings" section later in this report.

Online Surveys

To broaden the level of input by stakeholders, and to cast a wider net for creative ideas, Management Partners prepared and implemented two electronic surveys. The first survey was tailored to the City's employees, and the second was intended for elected officials and appointed advisory commissions and committees. The purpose of the surveys was to gauge each group's understanding of budgetary issues and identify spending priorities and any new strategies for deficit reduction.

Each survey asked questions to gauge awareness and understanding of the City's fiscal crisis, as well as spending priorities and support for various potential strategies. More detail regarding the survey process can be found in the "Online Survey" section of this report; full survey results are included as Attachment B.

City Employee Focus Groups

In order to gain opinions and suggestions regarding potential deficit reduction strategies, Management Partners facilitated six focus groups with City employees. Each focus group was comprised of a specific type of employee (e.g., management, executive, public safety, support staff). Management Partners prepared consistent questions to be asked and facilitated each group.

A total of 63 people participated in the six groups, which equates to 59% of City employees. Complete focus group results can be found as Attachment C to this report.

Financial Modeling

Using a variety of budgetary, economic, and statistical data, Management Partners created a financial model for the City of Morro Bay. Various financial scenarios were then seeded into the model to ascertain the outcomes and impacts. The financial model can be used to test the impact of other ideas as well as to assist the City in the timing of implementation efforts. Like any financial model this tool is sensitive to the assumptions utilized in setting the numerous variables. An explanation of the alternative scenarios seeded into the model and the associated results are found later in this report.

BACKGROUND

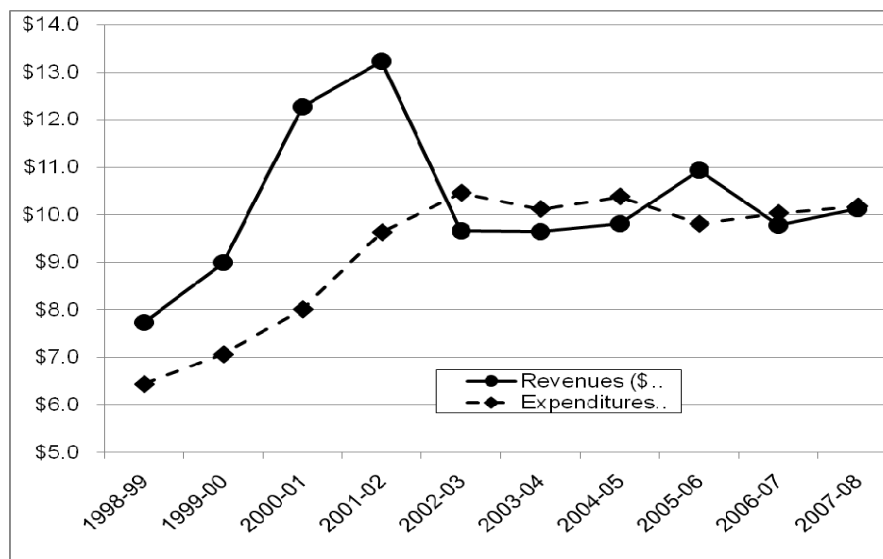
This section provides an overview of the context of the City of Morro Bay's financial environment. It is useful to understand how the structural deficit occurred, as well as to review the City's efforts to address the situation in recent years.

Five Year Summary of General Fund Position

The City's General Fund position has steadily eroded over the past few years. As Figure 1 below shows, until 2001-2002 General Fund revenues outpaced expenditures; for the following three years, expenditures exceeded revenues.

Prior to the sale of the power plant from Pacific Gas & Electric (PG&E) to Duke Energy in 2000-2001, PG&E did not pay the City franchise fees because it owned the pipelines. When the power plant was sold, Duke began to pay those franchise fees, providing a significant boost to City revenues. This boost was short-lived, however, as in 2002 the plant stopped operating due to environmental concerns and deregulation of the energy market. Most recently, expenditures are projected to equal revenues.

FIGURE 1: GENERAL FUND REVENUES AND EXPENDITURES



The significant revenue drop observed in 2002-03 was primarily due to operational changes associated with the Duke Energy plant that resulted in a decrease of franchise fee revenues to the City. It is unlikely that the City will see a return to the prior level of operations and revenues.

On the expenditure side, the City has responded to this situation by holding City General Fund spending relatively constant. Because real operational costs have increased, the City has been forced to make cuts in most non-personnel costs to try to preserve its investment in human capital. It has also forced the City to reduce the growth in personnel costs as much as possible – leading to increasing retention problems in some key areas.

Because the City was spending more than it was taking in (e.g., deficit spending), it had to dip into its reserves. Figure 2 below shows the balance of the City's General Fund Reserve. As can be seen, it dropped to its lowest point of \$1.2 million in 2004-05 but has since recovered to a projected \$4.1 million in 2007-08. This was due to the City taking many steps to reduce spending since 2005. Unfortunately, most of these positive steps are one-time in nature and include accounting changes and fund balance transfers into the General Fund that, by their nature, cannot be part of a long-term fiscal solution.

FIGURE 2: GENERAL FUND RESERVE BALANCE

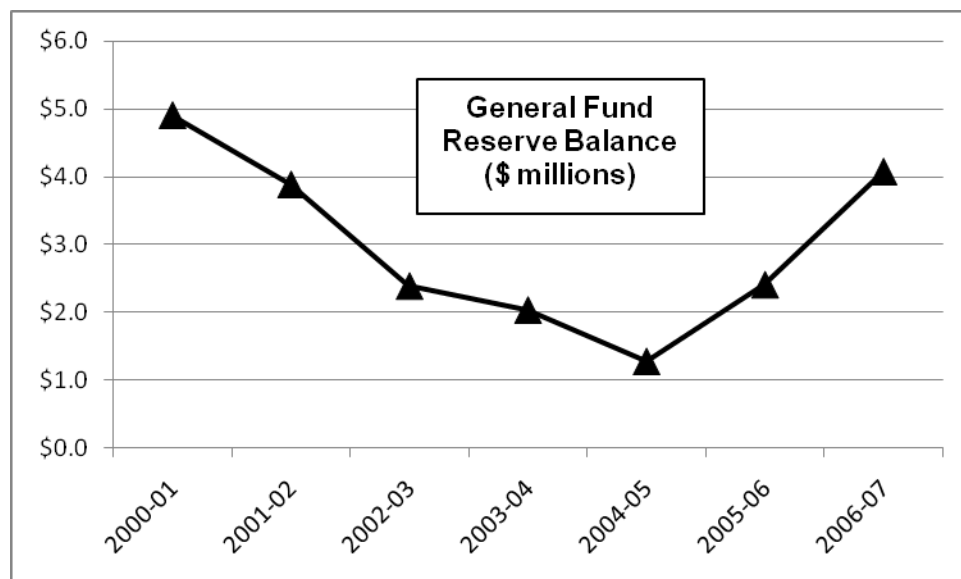
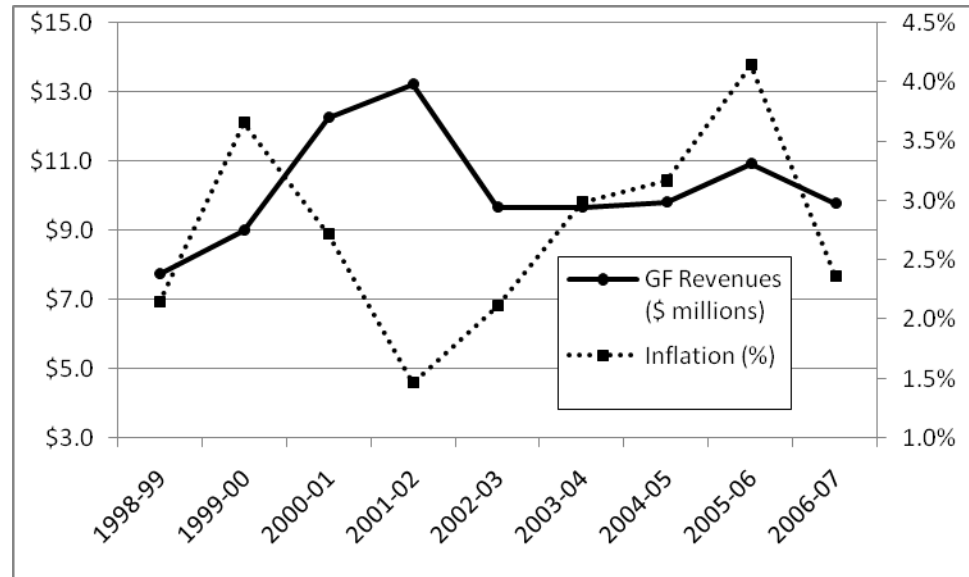


Figure 3 below compares Morro Bay's General Fund revenues directly to the rate of inflation which, in most cases, sets something of a floor for spending increases, if services are held constant. As can be seen, the only years in which City revenues kept pace with inflation were those when the City reaped anomalous franchise fee revenues from the Duke power plant, essentially in FY2000-01 through FY2002-03.

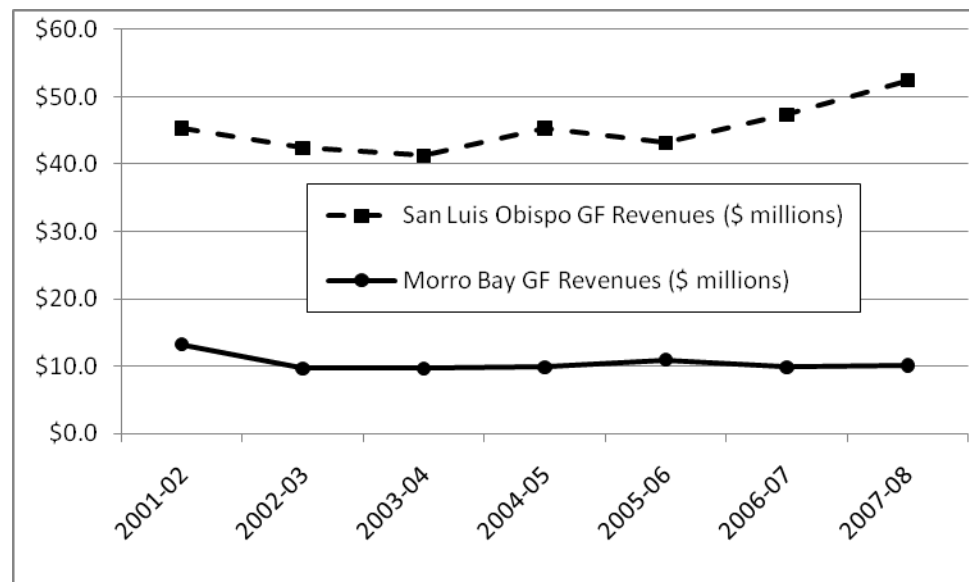
FIGURE 3: RATE OF GENERAL FUND REVENUE GROWTH COMPARED TO RATE OF INFLATION



As shown above, inflation outstripped revenue growth prior to 2000 but then revenues were strong and overtook inflation until 2003-04. In recent years, the rate of inflation has again outstripped the rate of revenue growth.

The City's financial situation is the result of lackluster revenue growth coupled with spending that is disproportionately high. A comparison of Morro Bay's revenue growth against the neighboring City of San Luis Obispo is shown in Figure 4 below.

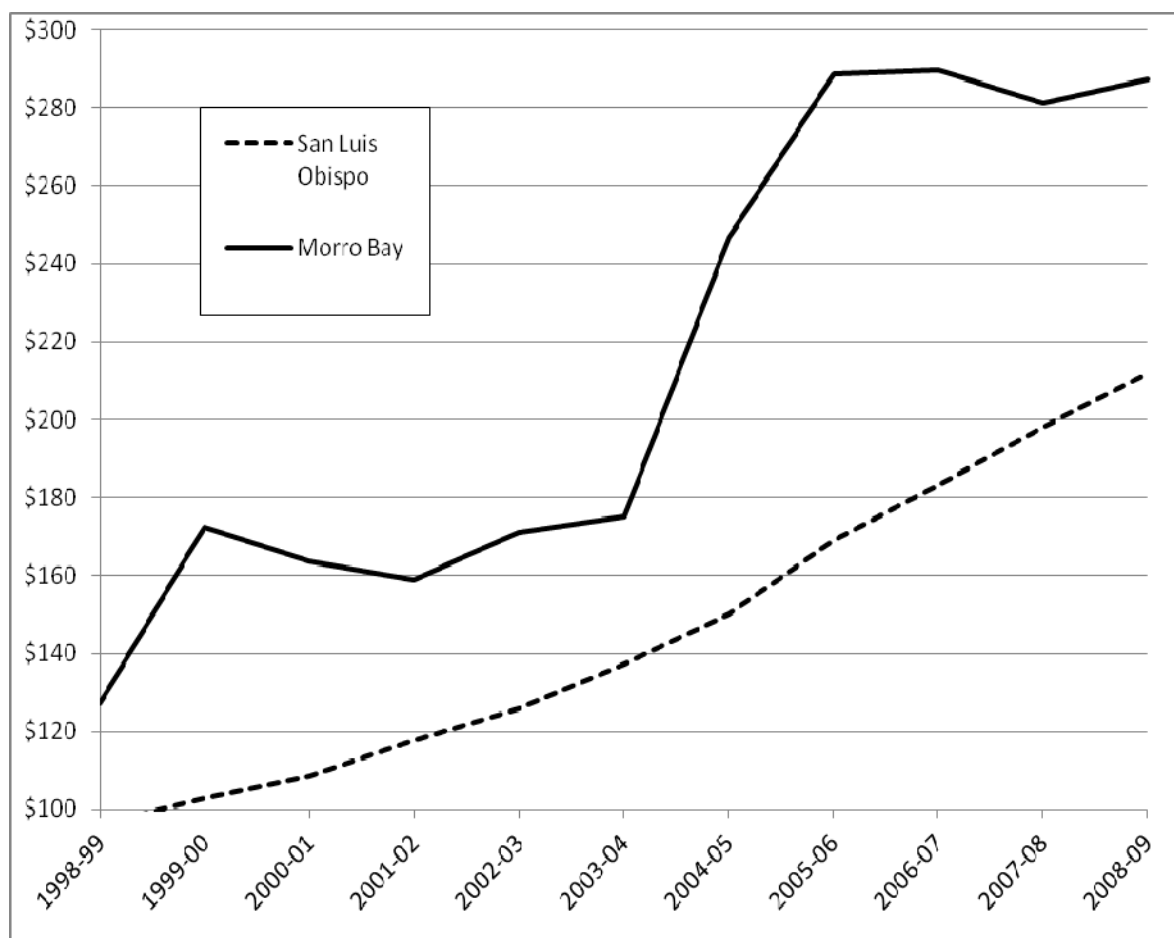
FIGURE 4: MORRO BAY AND SAN LUIS OBISPO REVENUE GROWTH



As can be seen, not only is the overall level of revenues much lower in Morro Bay, but revenues are flat as compared to growing in San Luis Obispo.

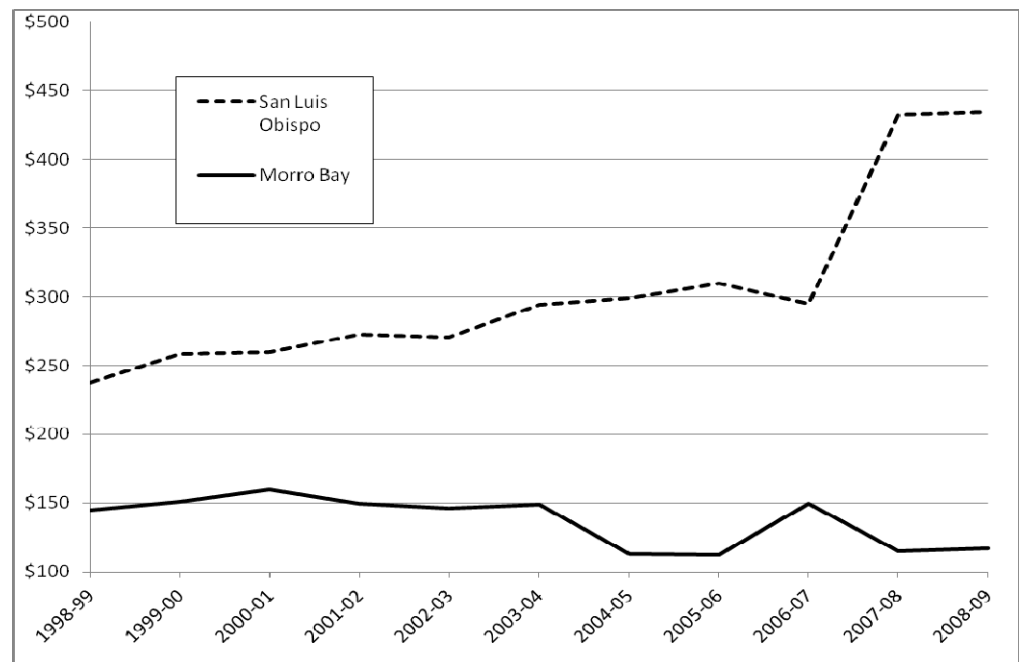
As Figure 5 shows below, though consistently having a higher per capita property tax revenue than San Luis Obispo, Morro Bay has seen the same upward trend in property tax revenues, likely due to the combination of increasing home values and development. On the other hand, Morro Bay has seen a leveling off in the past few years, while San Luis Obispo has continued to grow at the same rate. (Note that per capita property taxes in Morro Bay are higher than San Luis Obispo due to factors such as housing vs commercial density.)

FIGURE 5: PER CAPITA PROPERTY TAX REVENUE IN 2007 DOLLARS



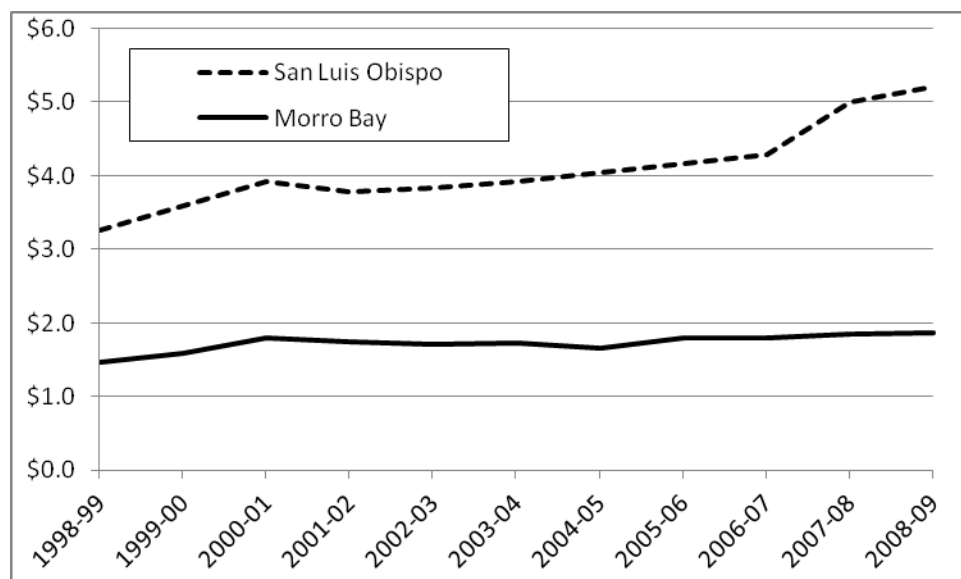
However, unlike property tax revenues above, per capita sales tax revenues for Morro Bay have shown a declining trend after adjusting for inflation, as shown in Figure 6 below. This is opposite of an increasing trend in San Luis Obispo, showing a real weakness in Morro Bay's ability to generate sales tax revenues.

FIGURE 6: REAL PER CAPITA SALES TAX REVENUE IN 2007 DOLLARS



As shown in Figure 7 below, Morro Bay's Transit Occupancy Tax (TOT) revenues have been quite flat, with a minor 18% increase since 1998-99. In comparison, San Luis Obispo has shown steady increases for a 46% gain over the same time period.

FIGURE 7: TRANSIT OCCUPANCY TAX REVENUE (MILLIONS)



Actions Taken to Date by the City

Aware of its situation and with current expenditures adjusted for inflation projected to outstrip current revenues by over \$1 million by FY2010, the City has already taken several immediate corrective steps to reduce expenses and increase revenues. No aspect of Morro Bay government can be considered "fat" after several cycles of budget reductions. Several areas are, in fact, critically low in funding for maintaining the City's current service level (public safety, in particular).

In order to reduce expenses, the City has reduced or eliminated all equipment replacement funding. Funding for the replacement of equipment has declined steadily in the past several years and currently there is almost no funding in the budget. The City has implemented a flexible hiring freeze such that most positions are frozen but can be filled with Council approval and, more importantly, held staff compensation at below-market levels across the City, an approach that cannot be sustained in the long-term. Additionally, the City has reduced training and organizational development to mandated (federally or state required) levels. Replacing the fire station apparatus bays is currently in process and should be completed by October 2008. Phase II, replacement of quarters, and office space is being designed and it is anticipated that debt

service with Measure Q funds or other funds will provide for the completion of this project. .

In order to increase revenues, the City has: raised fees and charges to partially recover the costs of the services; increased impact fees to levels comparable to other communities in the region;

Measure Q has also increased revenues available to the City. In this regard it should be clearly noted that the use of Measure Q funds for general purposes beyond public safety is allowed, as shown in the ballot language below:

The Morro Bay Vital Public Services Restoration and Protection Measure. To preserve the safety and character of Morro Bay, with priority on funding essential services such as fire, paramedics, street and pothole repairs, storm drains, police, youth and park programs and other general community services, shall an ordinance be adopted increasing the City sales tax by one-half cent, subject to independent annual financial audits, and establishing an independent taxpayers' advisory committee to review annual expenditures.

An April 2007 study by MuniFinancial on revenue enhancement opportunities and development fee options projected General Fund deficits and noted that the City was subsidizing the cost of new development. The study recommended several revenue enhancement and development fee options. As an outcome of this study, the City raised both its development and impact fees, but not to the level recommended in the study.

ANALYSIS AND RECOMMENDATIONS

Benchmarking Findings

Ten cities with similar demographic and physical features were selected to serve as “peers” for purposes of comparison against Morro Bay. Peers were selected as being either those cities within 50% of the population of Morro Bay or having some harbor activities, and this list included all the large cities in San Luis Obispo County.

The 10 peer cities, and their populations as recorded in 2006 U.S. Census estimates, are shown below in Table 1 along with Morro Bay.

TABLE 1: PEER CITIES AND POPULATIONS

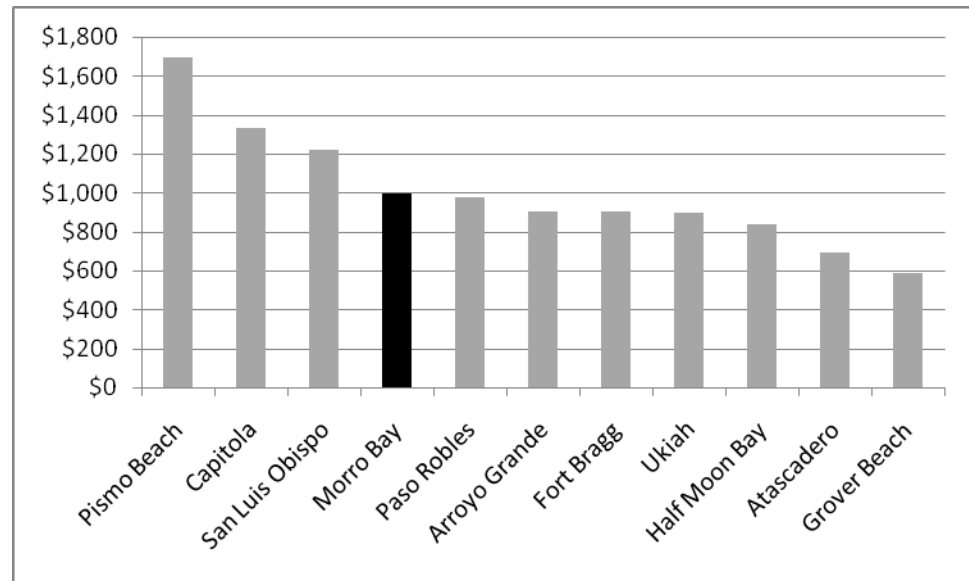
City	Population
San Luis Obispo	42,963
Paso Robles	27,973
Atascadero	27,343
Arroyo Grande	16,415
Ukiah	15,385
Grover Beach	12,802
Half Moon Bay	12,308
Morro Bay	10,135
Capitola	9,507
Pismo Beach	8,394
Fort Bragg	6,785

In order to get some idea of Morro Bay’s relative revenues, expenditures and service levels, Management Partners compared some typical municipal government metrics among the peer jurisdictions.

Revenues

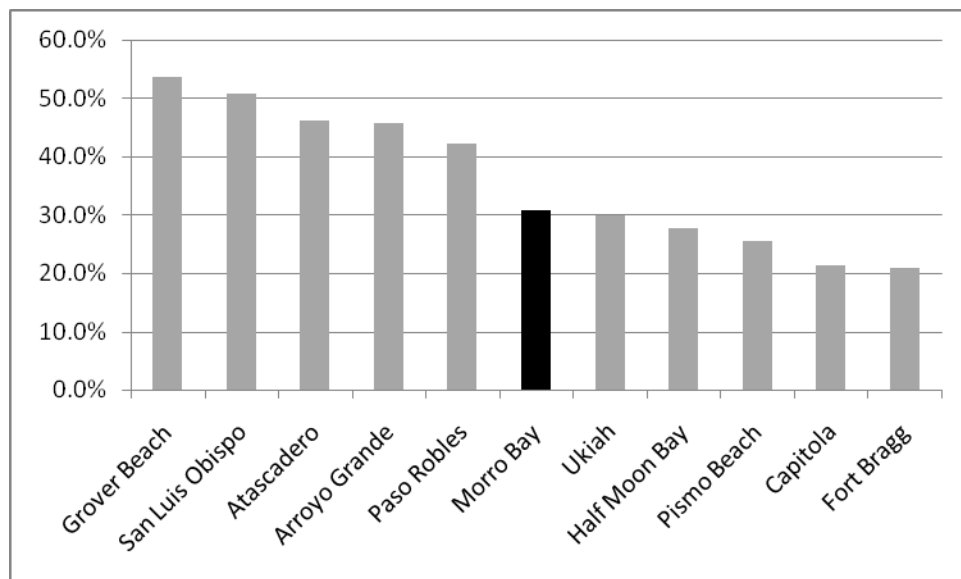
In General Fund revenues per capita, Morro Bay is near average of the peers. Figure 8 shows Morro Bay below Pismo Beach and San Luis Obispo, but above the other cities in the county.

FIGURE 8: GENERAL FUND REVENUES PER CAPITA



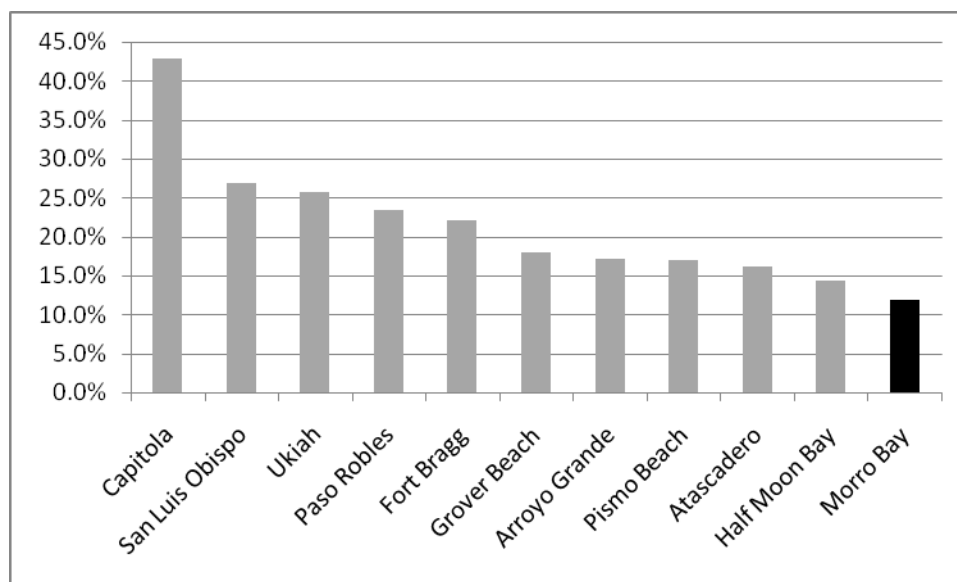
On the revenue side of the City's fiscal condition, the peer comparison shown in Figure 9 below suggests that property values have performed about average relative to the peer cities. Morro Bay's property taxes provide 30.8% of General Fund revenues. This compares with a high of 53.6% in Grover Beach and 20.8% at Fort Bragg.

FIGURE 9: PROPERTY TAXES AS PERCENT OF GENERAL FUND REVENUES



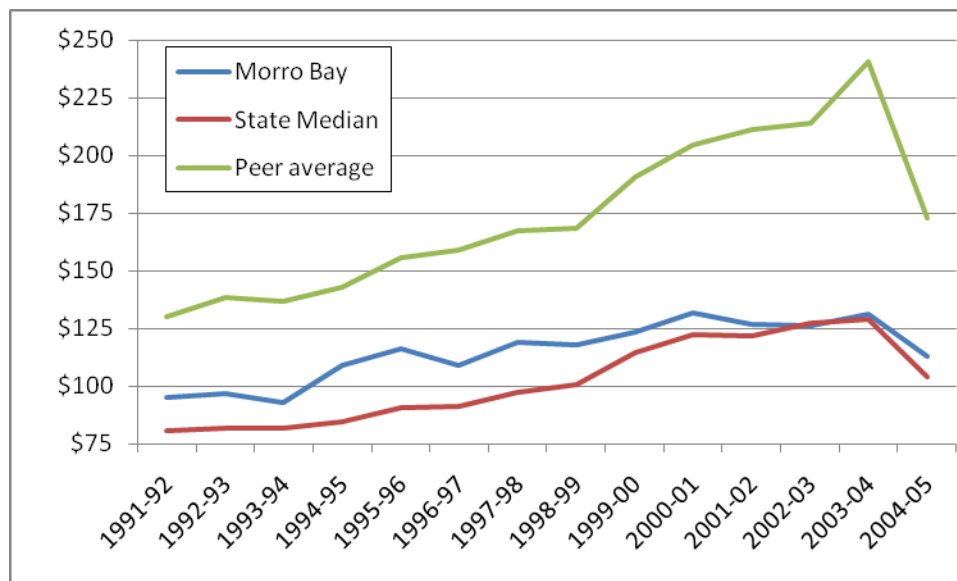
One of the most notable findings of the peer comparisons is that Morro Bay's sales tax revenues are the lowest of all peers as a percent of total General Fund revenues, as shown in Figure 10 below. Morro Bay's sales taxes account for just 11.9% of total revenues, as compared with a high of 42.8% in Capitola, a peer average of 22.32%, and a peer median of 20%. Morro Bay's sales tax generation is clearly below average and this reflects a major challenge for the City in that sales tax revenues are a revenue source that cities have influence to some degree via economic development efforts.

FIGURE 10: SALES TAXES AS PERCENT OF TOTAL GENERAL FUND REVENUES



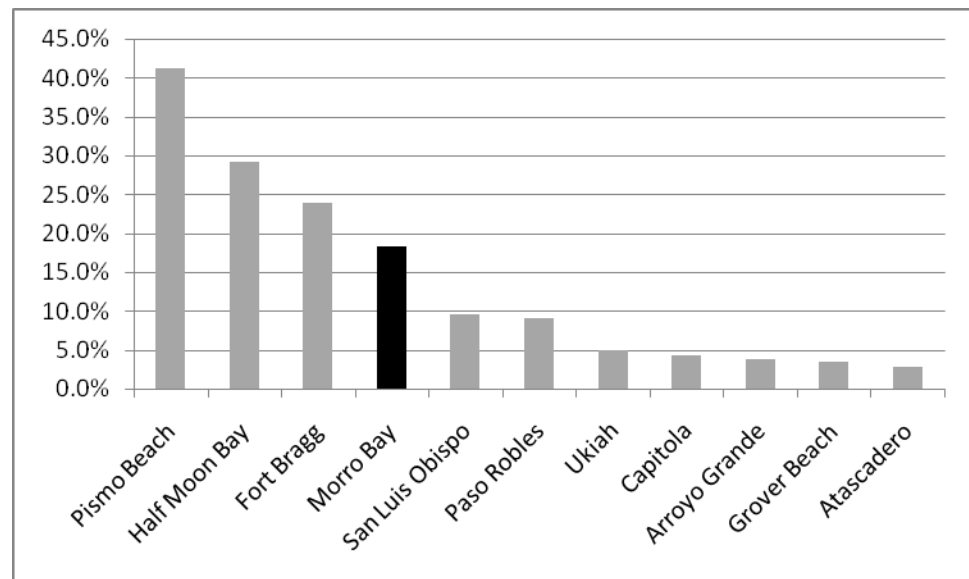
A review of Morro Bay's sales tax revenues as compared with peer cities and the state median in Figure 11 below shows that Morro Bay has consistently lagged behind peer cities in sale tax generation but has generally outpaced the state median.

FIGURE 11: PER CAPITA SALES TAX REVENUES OVER TIME



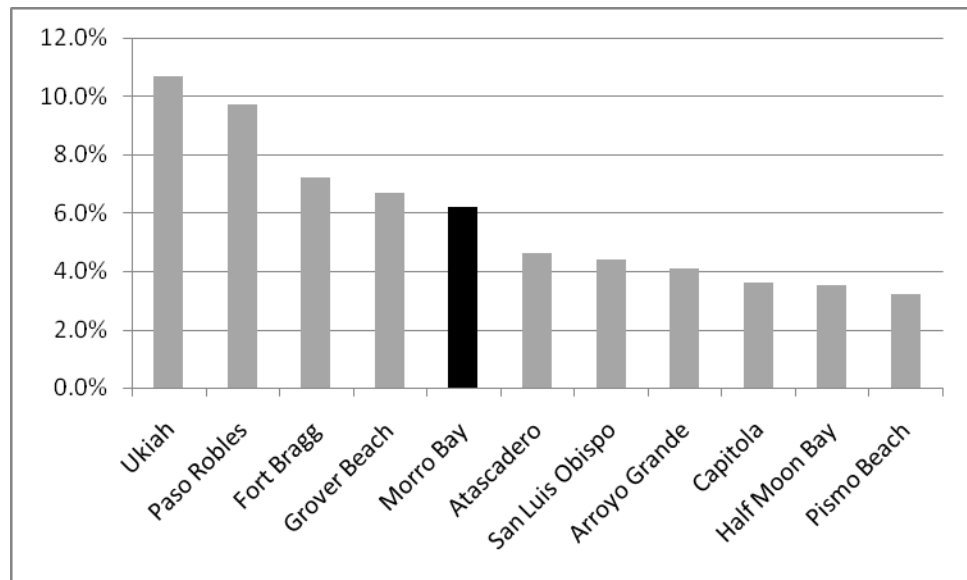
As opposed to sales tax revenues, TOT revenues for Morro Bay are in the middle of peers at 18.3% of General Fund revenues, as shown in Figure 12 below. This compares with a high of 41.2% in Pismo Beach and just 2.8% in Atascadero. Morro Bay ranks relatively high in this comparison, which is expected since it is known as a visitor destination. Interestingly, the relatively strong showing of TOT revenues is not correlated with sales tax revenues, suggesting that visitors do not spend much money while staying in Morro Bay.

FIGURE 12: TOT AS PERCENT OF TOTAL GENERAL FUND REVENUES



Similarly, as shown in Figure 13 below, Morro Bay's level of revenues from various franchises is also right in the middle at 6.2%, falling between 10.7% in Ukiah and 3.2% in Pismo Beach. Morro Bay is about average in franchise fee revenues. This underscores just how much of an impact the power plant revenues had on the City's finances in the early 2000's.

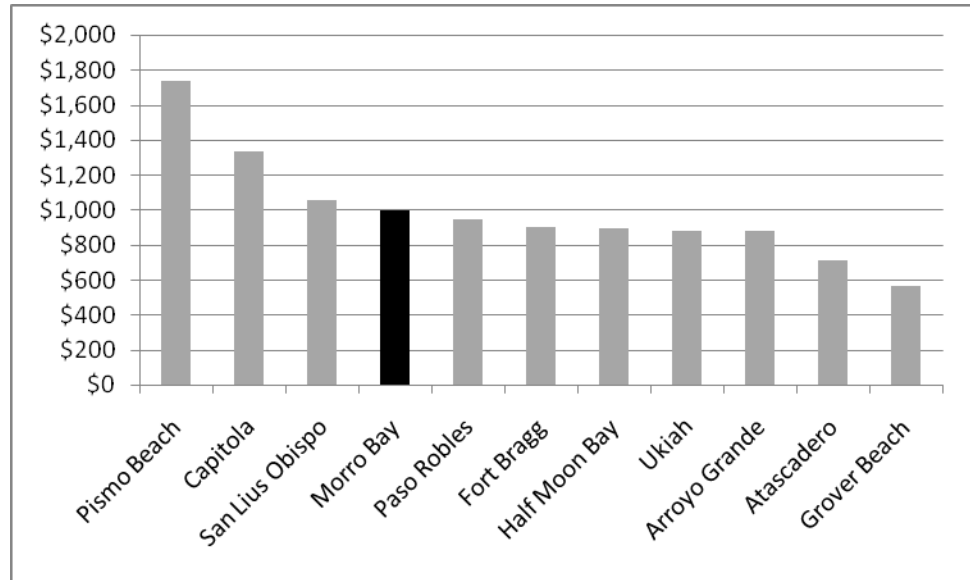
FIGURE 13: FRANCHISES AS PERCENT OF TOTAL GENERAL FUND REVENUES



Service and Expenditure Comparisons

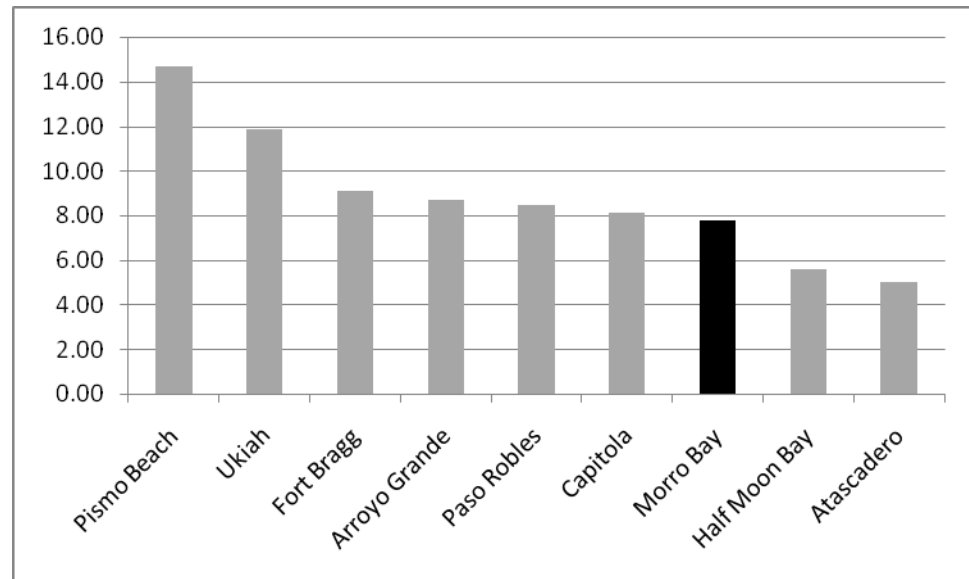
Overall General Fund expenditures per capita is one metric for level of overall government spending. Morro Bay spends \$998.57 per capita for its General Fund, as compared to a low of \$564.23 in Grover Beach and a high of \$1,736.74 in Pismo Beach. This is shown in Figure 14 below.

FIGURE 14: GENERAL FUND EXPENDITURES PER CAPITA



As shown in Figure 15 below, the number of General Fund employees in Morro Bay is on the low end in comparison to peers, with 7.77 employees per 1,000 residents. This compares to a low of 4.98 in Atascadero and a high of 14.67 in Pismo Beach.

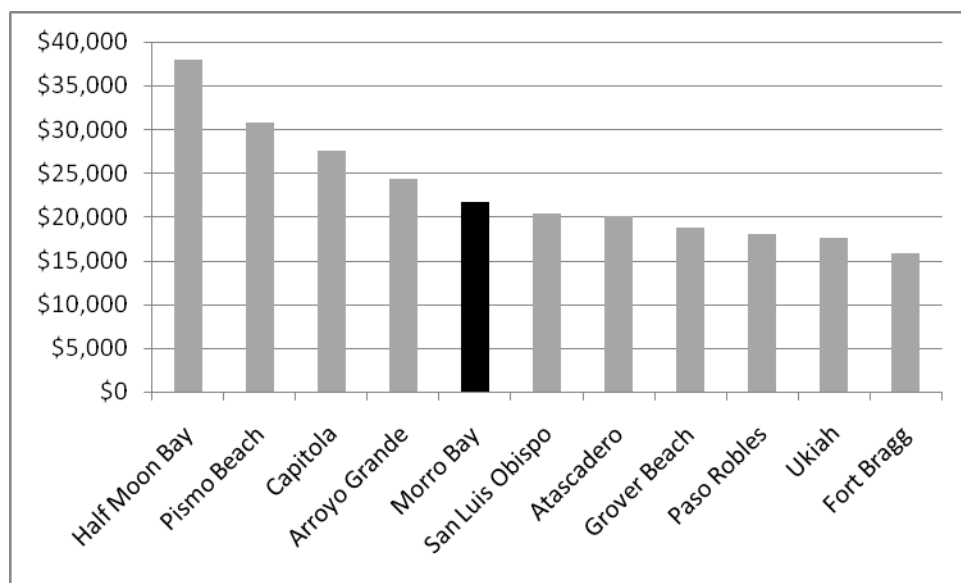
FIGURE 15: GENERAL FUND EMPLOYEES PER 1,000 RESIDENTS*



*Grover Beach and San Luis Obispo data not available.

Morro Bay's per capita income is in the middle of peers, at \$21,687 per capita, as shown in Figure 16 below. This is slightly below the peer average of \$23,135 and slightly above the peer median of \$20,208. This finding suggests that generally speaking, Morro Bay's population has the means to support the same revenue levels as in peer cities, which are typically higher than in Morro Bay.

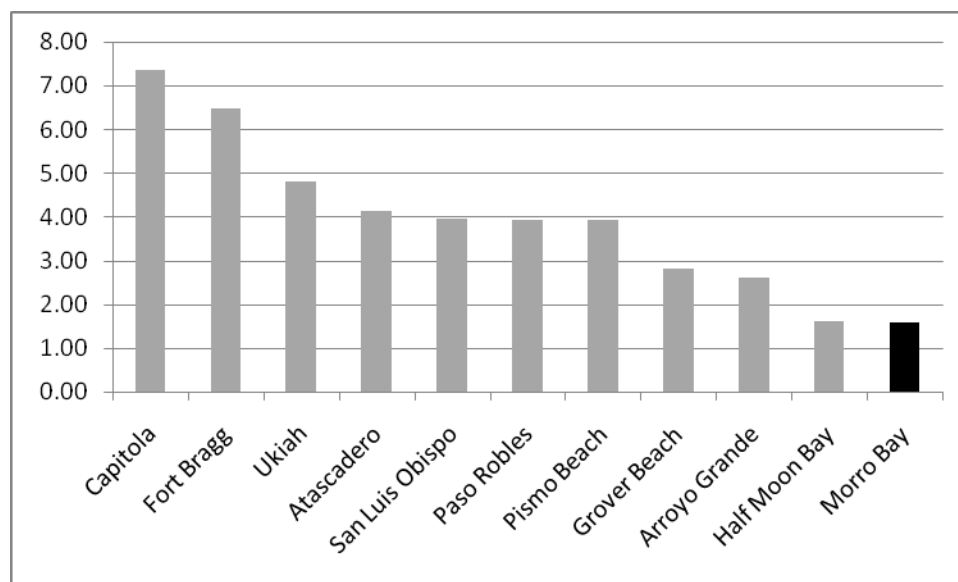
FIGURE 16: PEER COMPARISON OF PER CAPITA INCOME



Morro Bay compares favorably when it comes to crime rates, which is an important service delivery metric for the largest single City expenditure – police services.

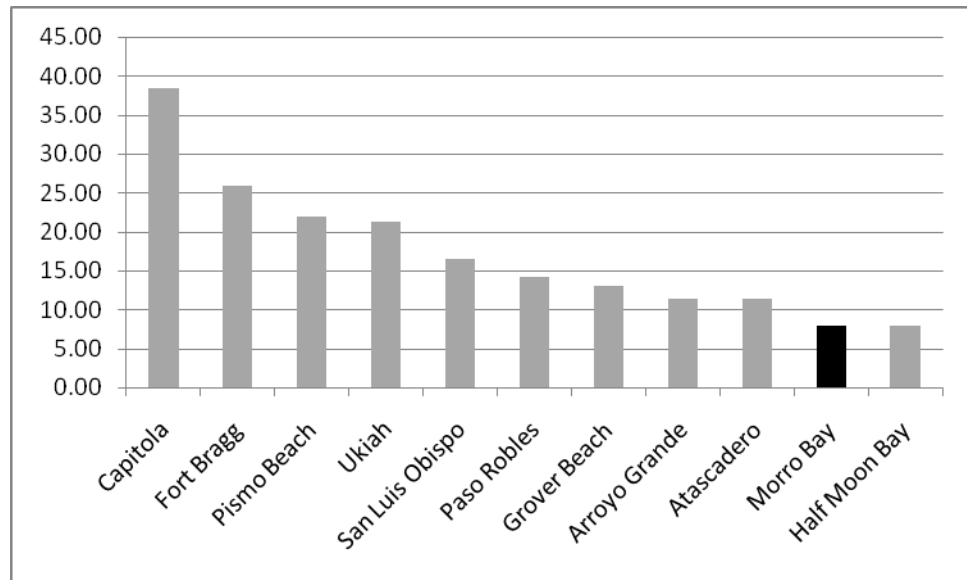
Though a direct link is not proven, a comparison with peers shows that Morro Bay's police services may be producing favorable results. Figure 17 below shows how Morro Bay compares against its peers for violent crime rates. As can be seen, Morro Bay has the lowest violent crime rate among its peers with just 1.58 violent crimes per 1,000 residents. This compares against a high of 7.36 crimes per 1,000 residents in Capitola.

FIGURE 17: PEER COMPARISON OF VIOLENT CRIME RATES



As shown in Figure 18 below, Morro Bay's property crime rate of 7.89 per 1,000 residents is second lowest, with Half Moon Bay just slightly lower at 7.88. This compares favorably against a high of 38.39 property crimes per 1,000 residents in Capitola.

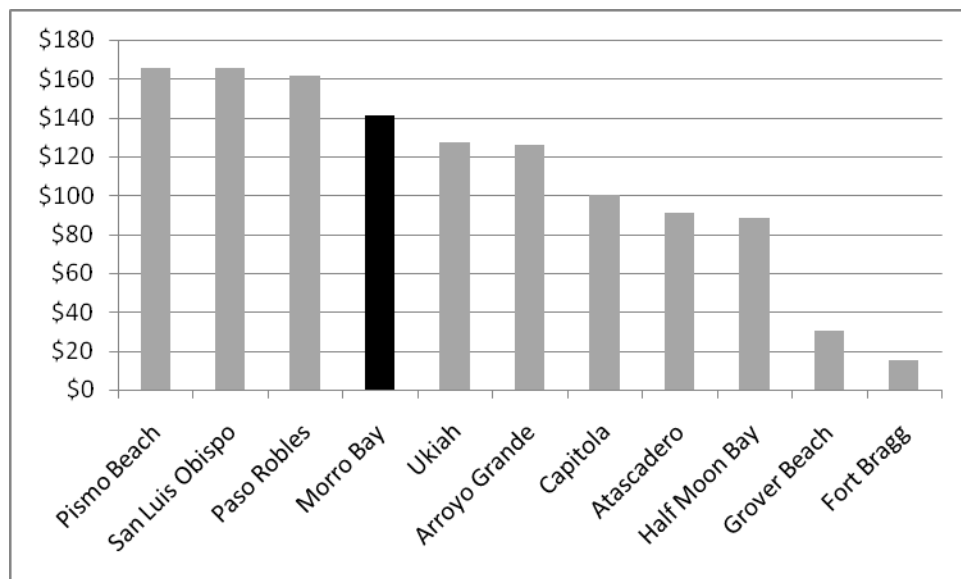
FIGURE 18: PEER COMPARISON OF PROPERTY CRIME RATES



As shown in Figure 19 below, Morro Bay's spending on recreation and community services is in the middle to high end of peers. Morro Bay spends \$140.86 per capita on recreation and community services, in comparison to a low of \$15.16 in Fort Bragg and a high of \$165.19 in Pismo Beach. These expenditures may be contributing to a healthy sense of community and lower crime rates.

It must be understood, however, that Morro Bay's Recreation and Parks Department includes a maintenance operation, while some other cities' do not and house their park maintenance in other departments. For this reason, Figure 18 below is not a perfect comparison. More discussion on parks maintenance costs can be found in Table 16 later in this report.

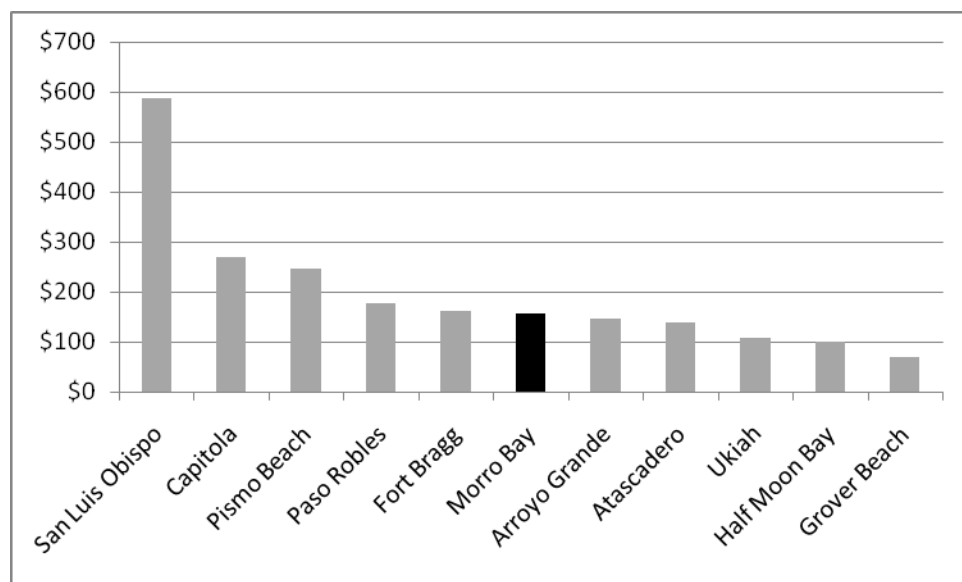
FIGURE 19: RECREATION AND COMMUNITY SERVICE EXPENDITURES PER CAPITA



Morro Bay's spending on public works and utilities is in the middle to low end of its peers as shown in Figure 20 below. Morro Bay spends \$156.31 per capita on public works and utilities in comparison to a low of \$100.37 in Half Moon Bay and a high of \$586.37 in San Luis Obispo. However, at almost double the nearest peer amount, San Luis Obispo's spending would be considered an "outlier" and unusually high for this group of peers.

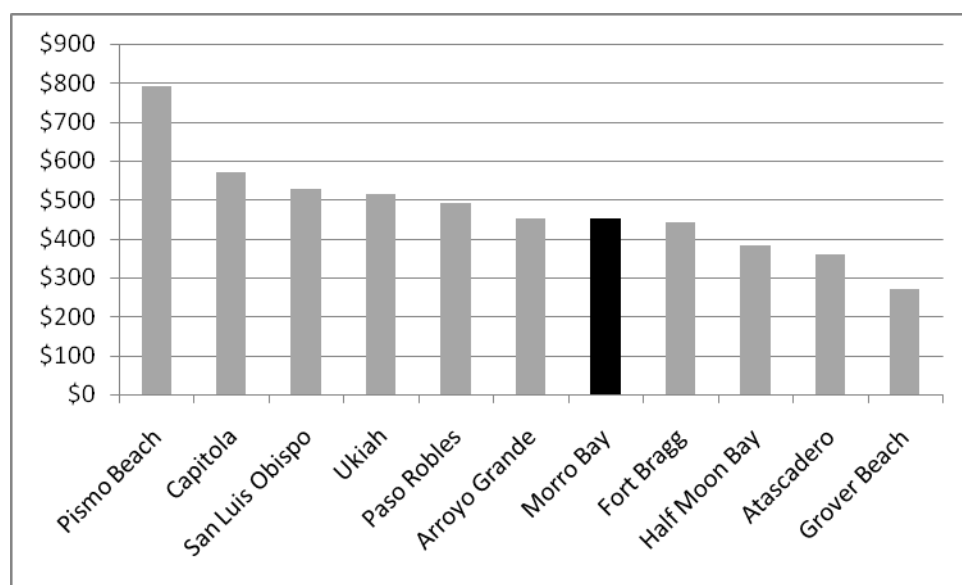
It should be noted that City-operated utilities vary a great deal, thus making peer comparisons less specific and, thus, less meaningful. Further detailed analysis would be required regarding specific utilities or public works operations.

FIGURE 20: PUBLIC WORKS AND UTILITIES EXPENDITURES PER CAPITA



Similarly, as shown in Figure 21 below, Morro Bay's spending on public safety (police and fire) is in the middle to low end of its peers. Morro Bay spends \$450.09 per capita on public safety in comparison to a low of \$269.69 in Grover Beach and a high of \$792.03 in Pismo Beach. While the staffing level of both Atascadero and Half Moon Bay is similar to that of Morro Bay, both cities have a service population that is 20% larger, resulting in the lower cost per capita figures shown below. This comparison compares police and fire and it should be noted that while both services employ sworn personnel, and associated public safety retirement costs, the services delivered are quite different. Service delivery approaches also vary greatly among the peers as is further discussed later in this report.

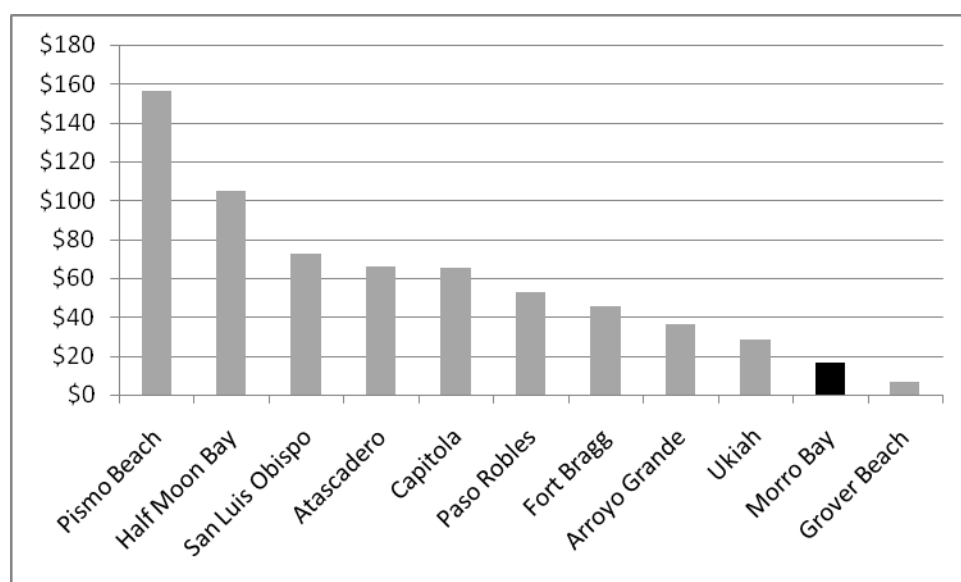
FIGURE 21: PUBLIC SAFETY EXPENDITURES PER CAPITA



As shown in Figure 22 below, Morro Bay's spending on planning and community development is the second lowest in comparison to peers. Morro Bay spends \$16.31 per capita on planning and community development as compared with \$6.64 in Grover Beach on the low end and a high of \$156.45 in Pismo Beach.

These figures are as reported by various City budget documents. Because Morro Bay is organized differently from many cities, this is a rough comparison and not reliable for drawing any strong conclusions.

**FIGURE 22: PLANNING AND COMMUNITY DEVELOPMENT
EXPENDITURES PER CAPITA**

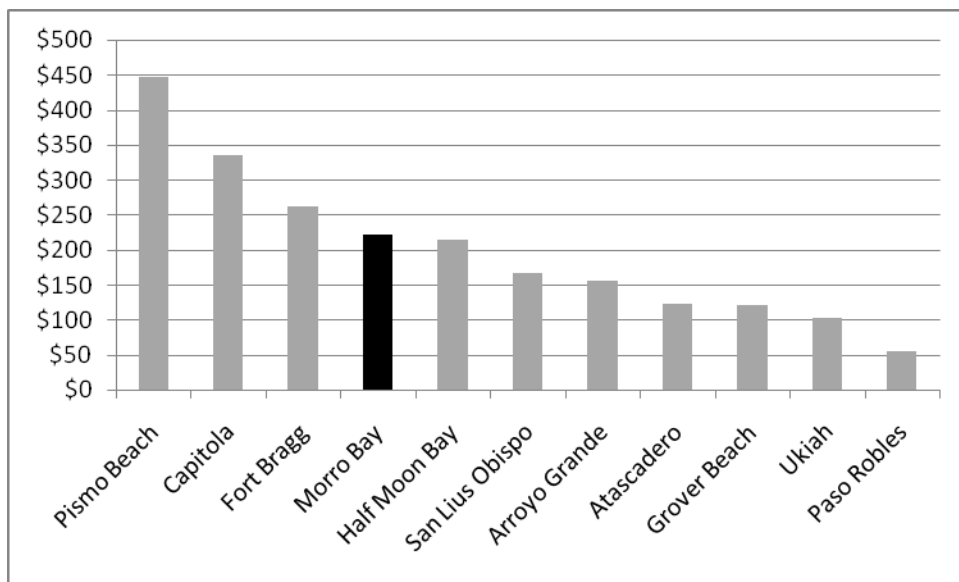


While the City has been frugal in this area, this is in part due to a delay in approving its new General Plan. While a General Plan update is complete, it is pending before the Coastal Commission. The Commission cites lack of funds to review the City's General Plan and has no deadline for doing so. In essence, the City's revised General Plan has fallen between the cracks. This delay in approval of a new General Plan is sending mixed signals to the development community and likely having a negative impact upon the City's economy and ability to attract development.

Recommendation 1: Use this report to lobby the Coastal Commission for an expeditious approval of the City's General Plan. The City must explain its grave financial position to the Commission and the need for certainty surrounding land use issues in order to attract investment to the community.

Morro Bay's spending on general government expenditures, such as the City Manager, City Clerk, City Attorney, and City Council, is in the middle of its peers. Morro Bay spends \$221.60 per capita on general government, as compared to a low of \$55.45 in Paso Robles and a high of \$446.68 in Pismo Beach. This is shown in Figure 23 below.

FIGURE 23: GENERAL GOVERNMENT EXPENDITURES PER CAPITA



It should be noted that Morro Bay's general government expenditures includes a full-time City Attorney, which some of the peer cities do not have.

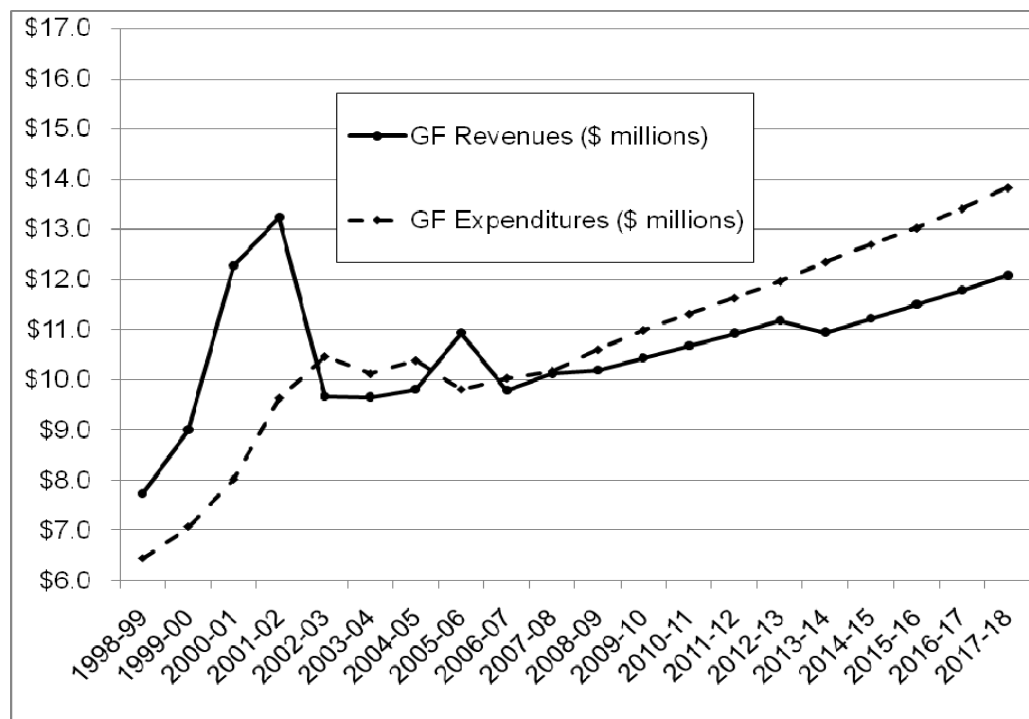
Projected Fiscal Situation

Based on current trends the City's financial situation is not sustainable. This is because the City has eliminated many maintenance and replacement expenditures from the City budget in order to preserve staffing and keep expenses equal to revenues. This cannot be a successful long term strategy.

When Management Partners evaluated likely revenue growth against minimal expenditure increases under the current service delivery approach, the result was insolvency. These projections are briefly discussed below.

In Figure 24, we have assumed a modest increase in projected General Fund revenues and expenditures on an annual basis to keep up with inflation. This chart includes current negligible levels of spending on capital projects and is, thus, unrealistic for the long-term.

**FIGURE 24: PROJECTED GENERAL FUND REVENUE AND EXPENDITURES
ASSUMING STATUS QUO OPERATIONS – KEEPING PACE WITH INFLATION**



As can be seen from the above figure, if one assumes continued sluggish revenue growth (justified given current economic conditions in California) and just enough growth in expenditures to maintain the same service levels, the City will face continued annual deficits into the future.

This is a very important finding and it is a basis for many of the recommendations that follow. The City of Morro Bay must make fundamental changes in the way it does business. To maintain current service levels, the community will be asked to pay more to keep them afloat. None of this will be easy for the community or City employees.

After discussing the results of our outreach efforts to stakeholders we will return to the critical financial questions, introduce the financial model and provide recommendations.

Online Survey Results

Management Partners conducted two concurrent online surveys. The first survey was tailored to the City's employees, and the second was intended for elected officials and appointed advisory commissions and committees. The purpose of the surveys was to gauge each group's understanding of budgetary issues and identify spending priorities and any new strategies for deficit reduction. The following list details the

various groups who received survey invitations, including employees, council, board, and commission members:

- All City of Morro Bay full-time employees
- City Council
- Citizens Oversight Committee
- Community Promotion Committee
- Harbor Advisory Board
- Planning Commission
- Public Works Advisory Board
- Recreation and Parks Commission

Complete survey results can be found as Attachment B to this report. A summary of results is presented here.

Employee Survey

The Morro Bay employee survey was available from March 11 through March 18, 2008. A total of 90 individuals responded out of a possible 107 full-time employees, producing an 84% overall response rate, which is excellent. Each employee received an email that invited him or her to take the online survey accessible via a web link.

The survey program used prevents survey results from being tracked back to any individual, producing complete anonymity among respondents. Additionally, all results are presented in summary format, rather than as individual responses, which provides added assurances of respondent anonymity. Survey responses were sent directly to Management Partners.

Council, Board, and Commission Survey

The Morro Bay Council, Board, and Commission survey was available from March 14 through March 18, 2008. A total of 23 individuals responded out of a possible 42, producing a 55% overall response rate which is very good.

The Council, Board, and Commission survey was structured identical to the employee survey for all questions except the questions which asked for personal demographic or city experience information, which were adjusted to reflect the different participants.

Survey Characteristics

Both surveys contained nine multi-part questions intended to gauge knowledge of budget issues, priority of assorted City programs and services, and the viability of various budget strategies. Additionally, both surveys allowed respondents to provide general comments.

The employee survey asked respondents in which department they work, their length of service with the City, and whether or not they live in Morro Bay. The survey intended for council, board members and commissioners asked on which committee the official currently serves.

Select Survey Results and Themes

Survey results indicate a wide variety of opinions on the best ways to resolve City budget issues and the most valuable City services.

Table 2 below shows the level that respondents identified how well they follow City budget issues. Results show that most respondents (89.4%) follow City budget news either very closely or somewhat closely.

TABLE 2: SURVEY RESPONSE TO THE QUESTION: “HOW CLOSELY DO YOU FOLLOW THE NEWS ABOUT MORRO BAY CITY GOVERNMENT AND THE CITY BUDGET?”

Answer Options	Response Percent	Response Count
Very closely	51.3%	58
Somewhat closely	38.1%	43
Not too closely	10.6%	12
Not at all	0.0%	0
Don't know/NA	0.0%	0

Respondents were asked to rate four budget resolution strategies on a scale ranging from the top option to the least option. Table 3 shows the responses to the four general budget resolution strategies laid out in the survey. Respondents favored new or increased revenues as the best option for resolving budget issues and service delivery reductions as the least best option. This is not particularly surprising given that City employees earn their livelihood from the provision of such services.

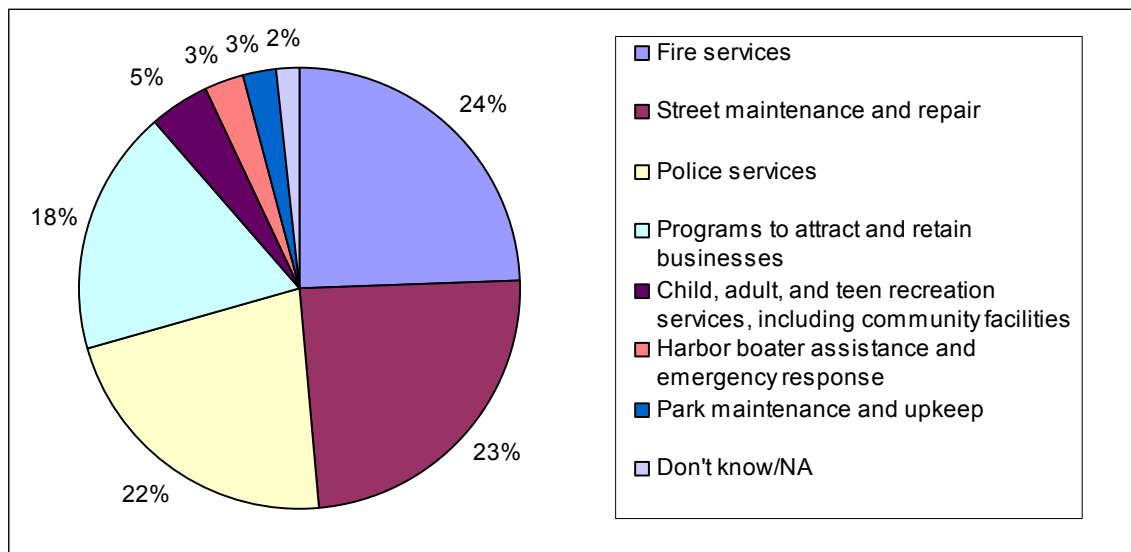
TABLE 3: SURVEY RESPONSE TO BUDGET RESOLUTION STRATEGIES

Answer Options	Top option	Second best option	Third best option	Least best option
New/Increased Revenue Sources	61	17	15	18
Service Delivery Model Changes	35	28	37	6
Expenditure Controls/Shifts	11	46	31	17
Service Delivery Reductions	6	13	23	65

Respondents were next asked to indicate the area of the budget that should be given a high priority in terms of spending. Additionally, respondents were given the opportunity to show a second highest priority. This analysis utilized a weighted result in which the first priority is counted as a full vote, and the second highest priority is given half of a vote. Four categories clearly outweighed the other choices included in this question as top priorities: fire services, street maintenance and repair, police

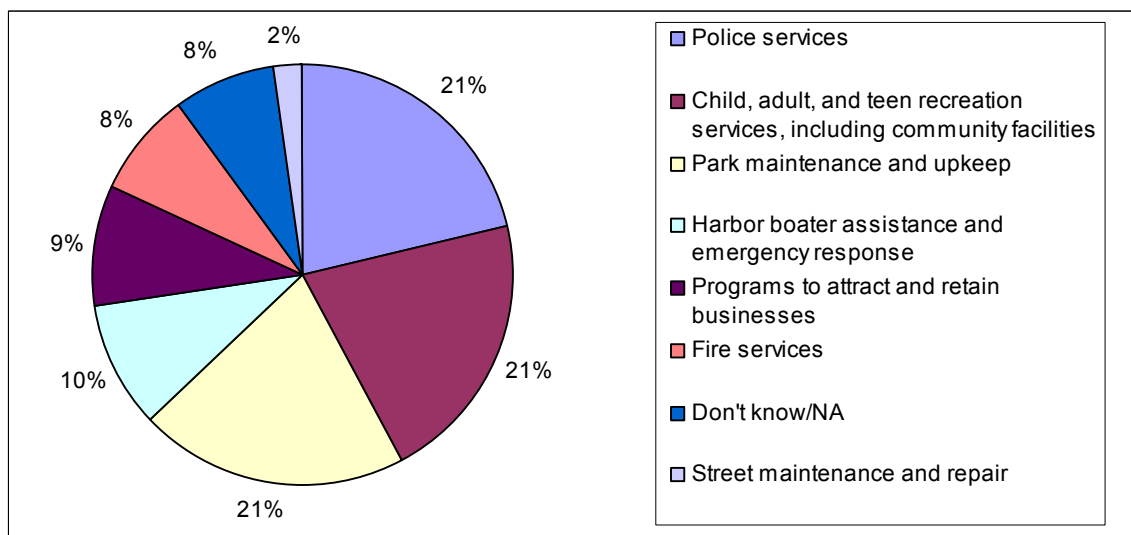
services, and programs to attract and retain businesses. Figure 25 shows the distribution of surveyed priorities based on this weighting system.

FIGURE 25: RANKED CHOICES FOR TOP BUDGET SPENDING PRIORITIES (WEIGHTED)



In expressing the opposite view, in which the question involved ranking choices for budget cuts, the most popular choices were police services; child, adult, and teen recreation services, including community facilities; park maintenance and upkeep; and harbor boater assistance and emergency response. When asked to consider potential cutbacks, the priorities expressed among respondents are more evenly spread than the top priorities for spending. Figure 26 shows the full distribution of responses to this question.

FIGURE 26: RANKED CHOICES FOR WILLINGNESS OF CUTBACKS (WEIGHTED)



Considering the results shown in Figures 25 and 26 above, the noteworthy discrepancy in priority assignment lies in police services, which ranks high as both a spending priority and potential cutback. This shows a divide in respondents' values regarding City services.

In Figure 24, four spending categories received 5% or less overall support among respondents while Figure 25 shows only one category of similarly low percentage. There is no definitive way to account for this difference, but the result is noticeable, and may reflect the overall reluctance among respondents to decrease services in any way.

Respondents seemed to feel that the City is spending about the right amount for most of its services (see Attachment B, Question 3 for full results). Table 4 shows the areas in which respondents felt there was either too much or not enough spending.

TABLE 4: RESPONSES INDICATING FOR TOO MUCH OR TOO LITTLE SPENDING

	Too Much	About Right	Too Little
Street maintenance and repair	5%	15%	75%
Attracting businesses to Morro Bay and keeping existing businesses here	10%	26%	54%
Police Department	41%	24%	26%

When asked to consider potential revenues, all presented items received considerable support among respondents with one exception: "Issuing debt bonds to cover purchases" had little support (49% somewhat opposed or strongly opposed). The revenue measure that received the most support was "Establishing more active corporate/community sponsorship of City facilities" (75% strongly supportive or somewhat supportive). Other measures that received strong support were "Adding a harbor use surcharge" and "Introducing parking fees."

Respondents were generally opposed to contracting out City services, but were supportive of other suggestions:

- Changing from sworn police and fire personnel to civilian positions in areas where a sworn person is not required
- Changing management to staff ratios
- Consolidating departments or areas with similar missions
- Managing property assets more proactively

When asked about potential expenditures and service reductions, respondents offered the most support for the following:

- Shifting funding from special funds and community based organizations to the General Fund as the law allows
- Eliminating police services that can be offered by other jurisdictions

When asked to determine the areas of potential spending cuts, “Reducing staff in the offices of the City Manager, Mayor or City Council offices” resulted as being acceptable. In contrast, the items that respondents declared as unacceptable spending cuts are as follows:

- Reducing funds dedicated to Information Technology
- Reducing support staff, but not sworn police officers, in the police department
- Reducing administrative staff at the fire department
- Reducing street maintenance
- Closing public facilities in neighborhood parks
- Reducing funds for revenue collection and management of City finances
- Eliminating City programs that educate youth
- Eliminating crime prevention programs
- Reducing police staffing dedicated to solving property crimes

Employee Focus Group Results

Management Partners conducted focus groups with Morro Bay employees on March 26 and 27, 2008. All full-time employees were invited to participate in one of six focus groups. Employees were encouraged to attend a specific focus group that was intended for a particular job focus. A total of 63 people attended the focus group sessions, representing 59% of City employees.

The focus group attendees are shown in Table 5 below:

TABLE 5: FOCUS GROUP ATTENDEES

Focus Group Number	
	Attendees
1	Management (Management Group, Fire Captains, and Sergeants)
2	Executive (All department heads)
3	Safety – sworn (Police Officers, Police Corporals, Harbor Patrol Officers, and Fire Engineers)
4	Maintenance Workers
5	Support Staff
6	Support Staff

Each group had the opportunity to answer the same questions. Below, each topic is presented along with the most common discussion themes. A complete list of questions and the recorded responses to each are shown in Attachment C.

Topic: Elements of Morro Bay that work well and should not be changed

This topic generally elicited appreciation for the level of services that staff are able to provide. Participants recognized several service areas, including police, fire, maintenance; the common thinking is that the City is cost effective in the level of service provided compared to salaries. Employees stated that they feel proud of their service for the City. Participants also provided some ideas on areas that should be improved, as noted in Attachment C.

Specific programs that participants mentioned include:

- The Fire Department's mutual aid system with the State, in which Morro Bay Fire has full use of a state engine and is also reimbursed for mutual aid calls
- APOC contract with the County, which allows for paramedic fee recovery
- The practice of issuing administrative citations
- Development impact and building permit fees, which could also be raised to a higher level
- The softball tournament, which helps raise funds from non-residents
- Business license fees
- The transient occupancy tax or TOT, which has recently been expanded to include vacation rentals
- Online enrollment for Parks and Recreation, which could be expanded to other departments
- Electronic water payments, which does not yet include credit card transactions

Topic: Ways in which the City can save money

This topic elicited several ideas for consolidation, including creating a single counter for City business, combining fire services with other cities, combining fire and harbor departments, combining police and harbor departments, and aligning code enforcement efforts that are currently handled among different departments.

Participants were consistent in bringing up the concept of greater cost recovery through increasing fees. Several people spoke of an earlier effort to study the existing fees, the results of which brought up the amount that the City charges for some services. Participants asserted that current fees remain far below the study's recommended levels. People indicated they would like the City to re-engage in an effort to discuss the true costs of services and equipment. Some were openly critical of the Council's reticence to charge higher fees, believing that Council should not hesitate to bring fee levels up to those of other cities in the area.

Participants in every focus group identified Council members as a cause of overall worker inefficiency. Staff expressed that the Council is frequent to engage staff directly in special requests, which pulls them out of their

planned and regular duties. Additionally, staff members have become frustrated by the Council changing previously made decisions, which renders useless any staff work completed based on initial decisions. Staff indicated that they do not feel that the Council trusts the staff's ability to take direction.

Participants felt that the City would benefit from greater planning and follow-through using long-term strategies for improving the City. Employees had no knowledge of future economic development or plans for encouraging local industry. Workers felt they would have increased productivity if they were given a common path to which the City Council and upper management could commit.

Most of the groups expressed apprehension about turnover and losing employees, citing the costs associated with training new employees and losing the productivity that comes naturally with longer job experience. Participants felt that instituting succession planning would help save the City money in the long run.

Some workers identified aging buildings and equipment as costly and dangerous. Deferring necessary maintenance produces greater costs as time goes on, and worker safety issues could also result in high costs to the City and lost productivity in the work force.

Topic: Ways in which the City could direct funds to the General Fund

This topic provided a forum allowing those who have a higher knowledge of the City's budget to discuss possible ways to keep the General Fund solvent. A majority of employees indicated that they do not hold a working knowledge of the budget and how it is structured. The topic elicited a number of budget ideas.

Participants through the focus group sessions brought up the concept of economic development as a way to attract more tourism to Morro Bay. When discussing the budget, some felt that a good way to encourage this would be to establish a Redevelopment Agency, which in the long run could generate more tax dollars to go into the General Fund.

Other thoughts on making more money available to the General Fund included increasing the TOT, increasing the span of current enterprise funds to free up dollars for the General Fund, and creating a longer-term plan for the General Fund to avoid having to continue making cuts.

Topic: New and increased revenues for Morro Bay

This topic was the most embraced among focus group participants, which coincides with the sentiments expressed in the employee survey.

There were many references to the fees that the City charges for various services, with heavy discussion placed on a recent study on the existing fees. As mentioned above, participants felt that the fees should be raised

to the levels suggested by the study rather than the small increases that were adopted. Some specific fees identified are as follows:

- Create a building maintenance charge-back system
- Towing fees
- Transient occupancy tax or TOT, which could be expanded to include camping spaces
- Increase harbor fees and create a launch fee
- Tighter municipal code violation fees
- Ambulance transport fee
- First responder paramedic service fees
- Utility excise tax
- Charge property owners for street sweeping, lighting, landscape, and sidewalk maintenance
- Institute 911 fees

Some of the most common topics regarding revenues included making better use of City-owned properties, taking a long-term look at redevelopment opportunities, installing parking meters at the Embarcadero, creating paid parking lots, building a convention center, and redeveloping the power plant.

A number of ideas came forth for ways to use the property currently occupied by the power plant. These ideas included building a casino, an amusement park, an aquarium, or a museum.

Every group mentioned potential revenue associated with the Morro Dunes RV Park. As participants explained it, the bulk of the proceeds from the RV park are granted to the current caretaker, who was in this job for a number of years before the City took ownership. The City receives a relatively small portion of the potential revenues that they could receive if the City were to take over complete operations.

Topic: Service reduction

This topic did not produce many common themes as individual priorities are varied among City employees. This is also supported in the employee survey, in which respondents' high and low priorities were often in direct conflict with one another. Some ideas for reducing service included eliminating or reducing trolley service, combining Parks and Facilities maintenance efforts, contracting fire services to Cal Fire, and contracting police services to the county.

Topic: Best options for resolving City budget issues

Many participants felt this was a good topic for bringing up the larger budget concepts rather than brainstorming the smaller, lower value budget saving ideas. Many people reiterated some items already touched upon, while others had suggestions for the overall philosophy that City leaders could employ while making budget decisions.

The larger budget concepts included the following:

- Emphasize revenue increases
- Revitalize businesses, particularly retail
- Create corporate sponsorships
- Act on a vision for the power plant
- Act in ways that encourage tourism and recreation
- Consider closing some services on Fridays

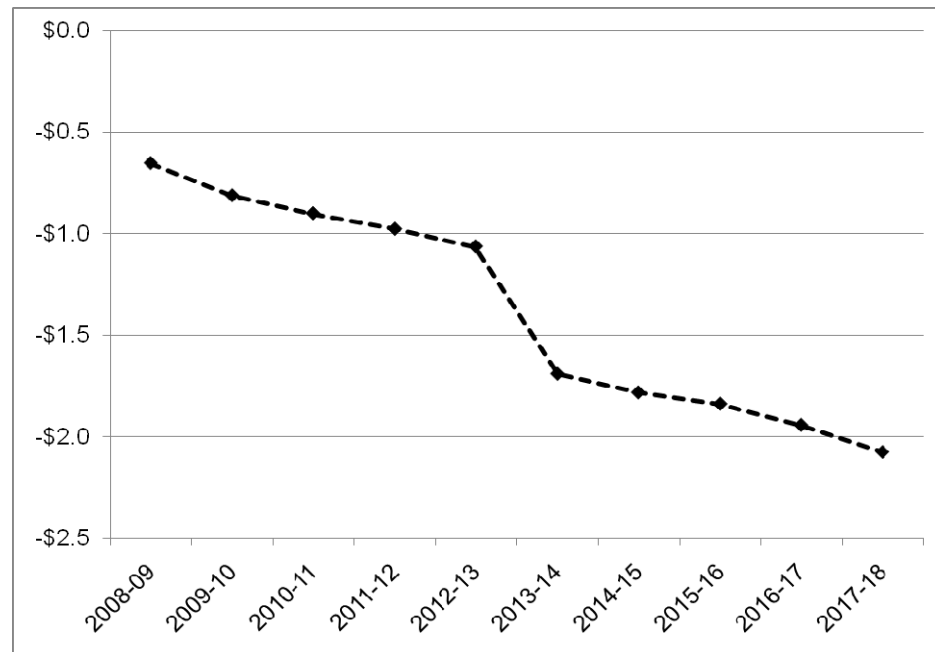
Employees expressed the hope that the City's leadership would focus on the value of the employees, giving them clear direction and the trust them to do their jobs well. They noted that they would like to be given long-term goals to work towards without continually shifting priorities and indicated that a strong City Manager might have good success with helping the Council set its long-term direction. This issue of the role of City Council is addressed in the recommendations section of this report.

Financial Model and Outlook

Management Partners has developed a financial model which breaks down City expenditures and revenues by type and allows us to run multiple scenarios based on program expenditure and revenue changes. The model itself consists of approximately 150 linked spreadsheets resident in an Excel workbook. All City General Fund and Enterprise Fund programs are included, as are revenues by type.

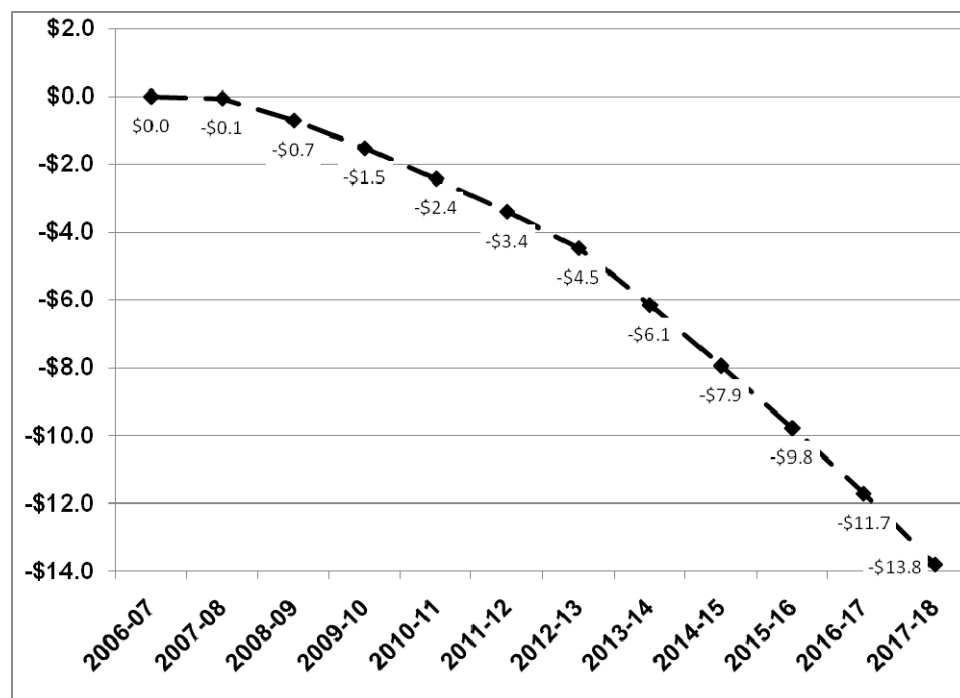
At current revenue and expenditure levels, adjusting for below median salary and fringe benefits, and projecting revenues and expenditures to grow at 2.85% per year (estimated average inflationary increase), the City will run General Fund deficits over \$2 million annually by FY2018, as shown in Figure 27.

FIGURE 27: GENERAL FUND ANNUAL DEFICIT TREND, FY09-18



Taking the General Fund deficit for each year and adding them up results in a cumulative impact shown in Figure 28 below. While each year's individual deficit may seem to be minor, the cumulative effect is that the City will be almost \$14 million in the red by the 2017-18 fiscal year. The result of continued deficit spending will not go away and, in fact, will have significant negative impacts for the City.

FIGURE 28: CUMULATIVE GENERAL FUND REVENUES LESS EXPENDITURES (MILLIONS)



Clearly this is not a feasible course of action for the City and this chart is shown only to demonstrate hypothetically, what would happen absent corrective changes.

The No City Alternative

There is no doubt that the City of Morro Bay is facing a dire financial situation. All strategies identified in this review for managing the structural deficit will be politically difficult for the community and/or various interest groups to accept.

One of the most difficult aspects of local government is the attempt to balance among competing interests. A wide variety of interest groups in the community perceive great value in their preferred programs. In most cases, the majority of the community will support public safety and public works maintenance such as roads and sewers. Parks and Recreation program advocates can often be vocal. In Morro Bay, the harbor and its associated commercial and recreational value undoubtedly has a significant following.

Tax watchdog groups rarely recognize the need for additional taxes and generally oppose all taxes and fees under the belief that all governments are wasteful, overfunded, or funding the “wrong” programs. They often do not recognize the legal mandates that incorporated cities are required to fund or that policymakers often have already reduced both revenues and expenditures, resulting in a two-sided “squeeze” on the budget of operating departments.

Morro Bay must take immediate action, action that requires sober and careful consideration. The alternative is not really the running of a continuous deficit, as is suggested by the status quo model results. Cities (unlike the Federal Government) cannot run chronic deficits. Instead what is at stake is the continued existence of the community as an incorporated city, with all the service enhancements that this provides, or a reversion back to the status of an unincorporated community such as the community of Los Osos. A community-wide vision must be developed with an understanding that to continue to receive enhanced service levels, both taxes and fees must be increased and/or cherished programs closed down. If that resolve for action cannot be generated and manifested in the polls for approval of tax measures and fee restructuring, the City should consider a planned disincorporation with a potential transition to a community services district to maintain some local control over services.

There are pros and cons to dissolving the municipal corporation, of course. On the positive side, tax rates will remain fairly static, there is a lower overall cost of regional government because of lower election costs, and the county organization is larger and has more capacity to ensure minimum service levels.

On the negative side, there is no local control over land use. All revenues, legislative control, and service responsibilities would revert to the County. Public safety service levels would be much lower and comparable to surrounding rural unincorporated areas. The maintenance of local roads,

parks, and other public infrastructure would likely decrease because of the larger land area for which the County is responsible. Finally, Morro Bay would most likely have to form a community facilities district or other special districts for water, wastewater, and storm water management, and potentially also for recreation programs.

As one reads the suggested strategies in this report, the question of “Are we a city or an unincorporated part of the county?” should be constantly considered. At the root of Morro Bay’s financial condition is its very identity as an incorporated city.

Development of Strategies

As part of this review, Management Partners reviewed the City’s operations and requested staff input in order to identify potential strategies for either increasing revenues or reducing expenditures. This section outlines those strategies.

Organizational/City-wide Strategies

Although Morro Bay has a typical department structure relative to California full-service cities having a similar scope of function, it can no longer support many of the associated organizational expenditures and must radically redesign itself to survive a bleak economic picture. As noted earlier, staff seek a consistent vision from the City Council toward which they can work.

The City has implemented a number of cost-saving programs since 2005, reducing already lean programs to a dangerously lean level in some cases. For the City to be successful in managing its current structural deficit, it must critically examine the public value of every program, in particular focusing on:

- Public safety
- Public works and utility services
- Mandated government services

Recommendation 2: Hold an annual policy meeting for the City Council to develop a set of longer-term goals and subordinate objectives to guide staff. Staff needs a consistent plan to follow in carrying out the City’s business. Once goals and policies are adopted, they should be consistently applied and regularly referenced.

Recommendation 3: Incorporate overall goals from the Council’s policy meeting into a set of budget directions for each department head as a guide for program development. The City Manager should use the Council’s goals as the foundation to create a budget and work plan for departments.

Any positions that are not absolutely required should be considered for elimination, including the Assistant City Manager. While a “nice to have” to provide support to the City Manager, the position is not of critical importance. An alternative is to consolidate operating departments to reduce management positions.

Recommendation 4: Eliminate the Assistant City Manager position or consolidate some operating departments. The City has two options for streamlining its organizational structure and should choose one.

While the position is justified in terms of workload and providing sufficient management depth to the organization, it is not an operational necessity. Implementing this recommendation will result in salary and benefit cost savings. Combining all City maintenance functions (including Harbor) is suggested later in this report and will help to reassign some of the Assistant City Manager's current workload. However, City Manager and department heads will have to assume responsibilities for mandated functions currently performed by the Assistant (such as heading Parks and Recreation, overseeing personnel and risk management) and the City Council and Manager will have less staff capacity to undertake studies or other management work. In addition, back up for City Manager (when necessary) will have to be assigned to a department head, which may be problematic in a major disaster.

An alternative is to consolidate operating departments. Reducing the number of departments would consolidate activities and reduce the number of managers and support personnel positions. Options for consolidation include:

- Eliminating the Recreation function or converting it to a completely cost-covering function (enterprise fund), or
- Combining the Park and Harbor Maintenance functions with Public Services maintenance to minimize overlap of functions and allow the transition of City staff labor to contract labor.

Taking either option would save the City approximately \$92,000 per year.

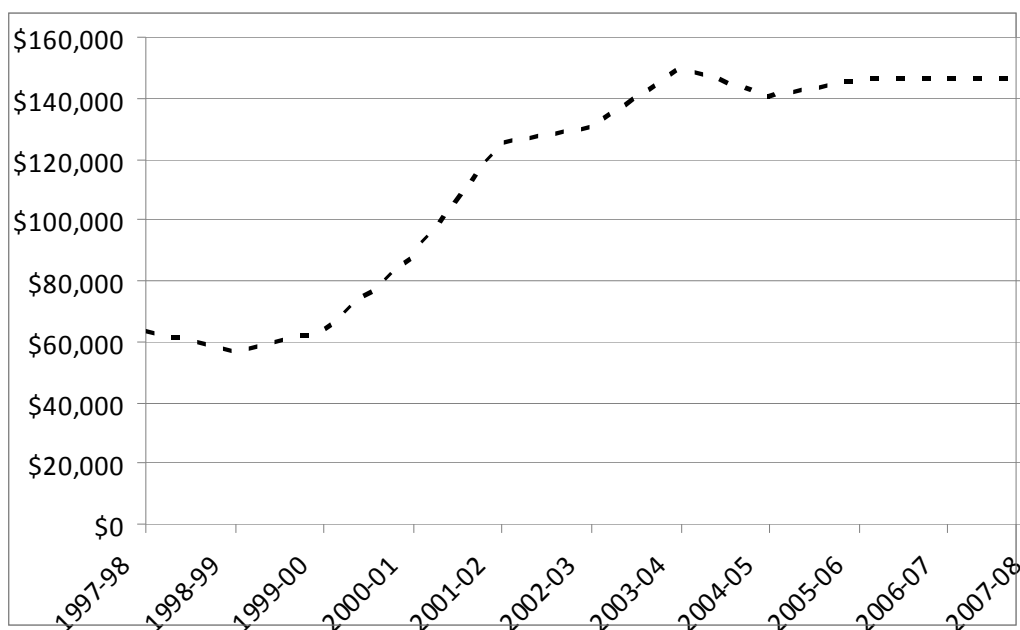
Any community that relies on tourism should expect to contribute to an advertising program. Morro Bay's current expenditures for advertising and promotion are shown in Table 6 below.

TABLE 6: CURRENT CITY ADVERTISING AND PROMOTION EXPENDITURES

Promotions and Advertising	\$128,939
Visitor's Center (Chamber of Commerce)	\$165,290
County Visitors & Conference Bureau	\$20,000
Total	\$314,229

However, the contribution to the Chamber of Commerce is large; many cities do not contribute to their chambers. Of the peer cities, the largest contribution to a Chamber of Commerce reported in budget documents was the City of Atascadero at \$58,060. Figure 29 below shows how the increase in local Chamber contributions can be linked to the one-time increase in power plant franchise fee revenues; however they did not decline when those revenues did.

FIGURE 29: MORRO BAY CHAMBER OF COMMERCE CONTRIBUTIONS OVER TIME



The City is also contributing to charitable organizations such as Aid to Agencies when its own finances are in question. Policymakers need to make some difficult funding choices in order to improve the City's financial condition.

Recommendation 5: Reduce the City's contribution to the Chamber of Commerce, other charitable groups, and for promotions and advertising. The City spends a higher level on supporting the Chamber than in its peer cities. The City has a promotional and advertising budget of over \$300,000 and provides over \$146,000 in support of the Chamber of Commerce in addition to several other promotional activities such as support for general promotion and advertising, local visitor's center, County visitors center and tourism program. Documentation as to the benefit or outcome of these expenditures is absent. The City should reevaluate all promotional and advertising efforts and reduce these expenditures.

Most cities charge non General Fund operations (such as enterprise funds) for the use of General Fund support such as the City Attorney's time, Finance Department's time, and the like. These are considered typical costs of doing business and, thus, are charged to the enterprise so that the General Fund is not subsidizing them. In Morro Bay, the overhead charges are outdated and are in need of an update to ensure that enterprises are cost covering and not a drain on the General Fund.

Recommendation 6: Prepare an updated overhead study. The overhead allocation plan was last done in 1999 and does not appear to be a dynamic, self-adjusting model. This will be especially crucial as changes are made to the overall City budget which will affect allocations. The study will cost between \$50,000 and \$75,000 but will recover that cost for the General Fund the first year and save that amount in all following years, creating new revenues to the General Fund.

Harbor Department

The Harbor Department Operating Fund is an enterprise fund established to conform with the Tidelands granting statutes of 1947 under which the City manages its waterfront lands and the Harbor. The Tidelands grant restricts the use of revenues to permitted uses related to the Harbor services in the Tidelands, and it should be noted that cost savings in the Harbor will not directly result in savings to the City General Fund.

The Harbor Department is staffed with eight full-time equivalent (FTE) employees, including administrative staff, and operations manager and harbor patrol officers. In addition the Harbor has a \$100,000 temporary employee budget used for the lifeguard program, maintenance aides and Harbor Patrol reserves. The Harbor operating fund is currently fiscally sound with FY 2007-2008 projected revenues of \$1,588,000 against operating expenditures of \$1,202,631, and it reimburses the General Fund for City overhead and other costs in the amount of \$294,000.

Revenue is derived from boat related fees (slip fees, mooring fees, boat launch, etc.) and leases on certain shorefront properties.

Revenues are expected to decline over the coming years as the commercial fishing industry becomes less and less significant while expenditures will rise with inflation. Commercial fishing activity continues to decline as the focus changes from near-shore fisheries to mid-ocean fisheries, or boats relocate to other areas.

Table 7 below shows estimated revenues for the Harbor Department in FY09.

TABLE 7: HARBOR DEPARTMENT ESTIMATED REVENUES FOR FY09

Estimated Harbor Revenue (FY 2009)	Amount
Commercial leases (including percent of gross lease payments)	\$1,180,000
Power plant outfall lease	\$250,000
Slip, moorings, and transient commercial pier rents	\$150,000
Transient recreational boat mooring and slip rents	\$ 120,000
Miscellaneous (shower fees, floating dock rental, live-aboard fees)	\$ 33,500
Total	\$1,733,500

If the power plant closes down, the \$250,000 in lease revenue on the outfall land will be lost. In any event, staff expects the loss of this revenue (over 17% of total revenues) by 2012 as the plant goes offline.

The harbor infrastructure (piers, slips, and public docks) is aging. One of the City's two piers burned in the 1988's and has been replaced, but the remaining pier is World War II era. Repairs required are currently estimated at \$400,000. The Harbor Department office located on the waterfront is of a similar vintage as the pier and in great need of replacement, with replacement costs estimated at \$250,000, of which \$80,000 has been set aside. The City has been rehabilitating slips and moorings, but an estimated \$400,000 in repairs remains to be done. The City will also have to replace the lifeguard stands at a cost of \$26,000.

The City recently installed a commercial ice plant at a cost of roughly \$1 million to replace a former plant that was deemed not viable by the commercial operator, who left. The new plant has been in production for eight months and is operated by the Morro Bay Fisherman's Association. Although the plant operating program includes a maintenance accumulation fund, the City may be at risk for repair costs if they exceed the amount of the fund.

Staff believes there are two opportunities for revenue increases. The first is institution of a boat launch parking fee which may gross \$18,000 per year in revenue. The City cannot implement boat launch fees because the boat launch was constructed under a grant from state boat gas tax funds

which prohibited launch fees. But the City could benefit from instituting parking fees, which are not prohibited. Also, the City may introduce slip and mooring transfer fees. Competition for berthing sites on the California coast sometimes supports high bids. At least one Morro Bay slip transferred ownership following a multi-thousand dollar payment. In a competitive climate such as this, there may well be an opportunity for additional revenue.

Although operation of the harbor in Morro Bay provides the City with \$294,000 in revenue in FY 2009, it also exposes the City to a number of liabilities, primarily in terms of the capital costs for facility replacement. The longer harbor facilities go in disrepair, the greater the risk of injury. The current Harbor Department does not have the funding in place to address the immediate maintenance needs described above. The City should, therefore, consider alternatives including contracting out harbor services and reducing staffing levels.

The City of Emeryville successfully contracted operation of its harbor to a commercial service provider. The transition started in 1998 and was completed in 2000. The deal included:

- Paying off the \$1 million balance on a state loan
- City employees being transitioned out to new employment (not to the contractor)
- The contractor making capital improvements including adding a restaurant, hotel, and postponed major maintenance
- Giving the City a percentage of operating fees
- A 25-year lease agreement

According to Emeryville staff, such an operation can be quite successful if the service provider is well capitalized, experienced, and agrees with the City's economic and community development goals. For Emeryville, these goals included adding the restaurant and hotel to expand commercial activity.

The City of San Francisco contracts the operation of the Treasure Island marina to a commercial operator and is also successful with that venture. Other cities have had bad experiences with harbor and marina contracting, but this is a function of the quality of the contractor and agreement.

In any event, the City must reduce the scale of its direct involvement in Harbor operations, by exiting as much of the operations as possible via outsourcing or contracting.

Recommendation 7: Investigate contracting all daily operations of the Harbor Department to a professional harbor management company. By contracting most harbor operations, and moving out Harbor maintenance and eliminating the Harbor Patrol function (both

recommended later in this report), the Harbor Department can become a two-person department focused purely on citywide economic development, with the understanding that the harbor and oceanfront is a core economic development opportunity for the City. By reducing labor costs in the Harbor Department, the City will have more money for needed maintenance and capital repairs.

In order to be viable and to generate the most favorable terms for the City this recommendation may need to be combined with policy changes and economic development initiatives. For example the City may need to consider some or all of the following steps:

- Changing the current preference given to commercial fishing vessels and allow for potentially higher market revenues associated with alternative users for pier and slip space
- Considering a major new commercial or slip development on City property to entice investment interest
- Allowing for proposals which also incorporate contracting for property management services

Recommendation 8: If the City chooses to retain harbor operations, transfer harbor maintenance functions to a consolidated maintenance division. In conjunction with Recommendations 9 and 20 later in this report which established a consolidated maintenance division, this will develop a consolidated maintenance program City-wide and allow for more efficient and effective use of maintenance staff and contractors.

The Harbor Patrol Unit consists of three officers with a Public Safety rating. The functions of the Harbor Patrol are to provide:

- Safety and enforcement of harbor regulations
- Surf rescue
- Oversight of the seasonal lifeguard program
- Miscellaneous administrative and light maintenance functions, including slip mooring and boat maintenance
- Derelict boat removal

Operation of a Harbor Patrol providing professional safety services such as surf rescue requires an effective training program. The City is exposed to significant liability if it offers professional services and does not properly prepare staff to provide those services and/or has not developed proper policies and procedures for safety activities.

The City is not obligated to provide safety services, but if it does it must provide those services competently or be liable for significant legal risks.

The Coast Guard has recently established a permanent local station in Morro Bay and is equipped for a wide range of rescues. Given the Coast Guard presence in town, the City's operation of a parallel rescue function is less important than it used to be. Police records indicate that they have dispatched only between five and nine 911 rescue calls at the Harbor in 2005 – 2007. (Many more calls for service are initiated directly by the Harbor Patrol, based on a call or direct observation, but not routed via a 911 call.) However more than ever the choice to provide such services is accompanied by responsibilities for providing the training and other safety program elements that the City may not be able to meet or maintain over the long term. Declining harbor revenues are only likely to exacerbate the challenges.

Recommendation 9: Reduce the Harbor Patrol function to one or two officers charged with enforcement duties only. Proactive safety operations require extensive training that the City has not maintained in the past and likely will be unable to afford in the future. The City puts itself at risk by operating the unit without proper training. The Coast Guard is present to provide safety needs to the community. The former Harbor Patrol officers can report to the Fire Chief and provide enforcement of local codes and ordinances in an efficient manner to the entire city, and the number of staff can be reduced over time through attrition. One complication with this recommendation is that the Harbor Patrol officers currently provide maintenance services. The City will need to somehow backfill for this loss. However it is not cost efficient for workers with expensive public safety retirement benefits to do maintenance or other non-sworn duties.

Recommendation 10: Manage administrative functions such as derelict boat removal using non-sworn staff. The additional training and equipment requirements of sworn officers are not required for administrative functions such as derelict boat removal. Such duties should be reassigned to non-sworn (civilian) City staff.

Public Safety

The City of Morro Bay is effectively an island of concentrated population, located eleven miles from the next area of concentrated population. The City is surrounded by open space for agricultural or other rural land uses. Within the incorporated boundaries of such a city, the expectations of the population for services are likely to be mixed depending on the individual resident's perspective on what type of town they live in. Some residents will view the City as a rural setting and have expectations that the available services will be typical of those found in rural areas. Others, especially those that have spent much of their lives in urban or suburban areas, will expect typical city service levels, at least in terms of public safety and many public works functions.

In recognition of the community's interest in these core service levels, the City has developed professional police and fire departments. The Police and Fire Chiefs have set response standards that are typical of professional public safety departments in urban or suburban areas. Just across the City limits in unincorporated areas, the response standards are not remotely the same as those within City boundaries. Response goals for the City's public safety departments to emergency calls for service is five minutes, while responses to similar calls for service in the unincorporated areas surrounding the City can reach 40 minutes depending on the staffing limitations of the County sheriff or rural fire service and travel times to the location of the particular call.

Management Partners' analysis of the public safety functions has recognized that despite the relatively high performance standards, both the police and fire departments have been operating with low funding levels for several years. Under the pressure of low funding, both departments are either now operating at or have reduced their service levels to only the minimum of core services common to urban public safety departments; in short, the City is having difficulty maintaining the high service standards it has set for itself. As for other City employees, public safety employee compensation is below market. In addition, equipment replacement and maintenance programs are spotty.

The current funding trends cannot sustain full service, professional public safety organizations with response standards like those of urban and suburban cities. This is largely because costs for such services have been increasing faster than general revenues and because competition for staffing has caused wages and benefits to grow faster than the underlying economy. There is a minimum effective scale for operating a stand-alone police department which is dictated by officer safety considerations (primarily, the assurance of available backup) and risk management. Morro Bay is at the tipping point and must determine whether it will be in the police business or not. Some combination of budget enhancements and service level reductions must be evaluated.

Management Partners compared the cost and service levels of the public safety programs of the peer cities with the program from Morro Bay. As shown in Table 8 below, the law enforcement program in each case was similar to that of Morro Bay. Data for some cities was unavailable or was not made public.

TABLE 8: POLICE SERVICE COSTS – FY 2008

Police	Population	Budget	Expenditures Per Capita	Calls For Service (CFS)¹	Expenditures Per CFS
Morro Bay	10,135	\$2,947,653	\$291	15,900	\$185
Arroyo Grande	16,415	\$5,790,123	\$353	15,000	\$386
Atascadero	27,343	\$5,674,140	\$208	34,100	\$166
Grover Beach	12,802	\$3,129,555	\$244	18,000	\$174
Paso Robles	27,973	\$10,821,800	\$387	36,000	\$301
Pismo Beach	8,394	\$4,559,112	\$543		
San Luis Obispo	42,963	\$12,699,000	\$296	29,900	\$425
Capitola	9,507	\$5,418,500	\$570		
Fort Bragg	6,785	\$2,920,300	\$430		
Half Moon Bay	12,308	\$4,658,389	\$378		
Ukiah	15,385	\$4,891,593	\$318	26,000	\$188
Peer Mean	17,988	\$6,056,251	\$373	26,500	\$229
Peer Median	14,094	\$5,155,047	\$366	27,950	\$184

As can be seen, Morro Bay is well below both the peer mean and median for dollars expended per call per service, budget, and dollars expended per capita on police services. The argument can be made that the service is being underfunded.

Table 9 below similarly compares fire service costs of Morro Bay and its peer cities. All cities had full service fire programs except that Arroyo Grande and Grover Beach have a combination of full-time and part time fire suppression personell. and Pismo Beach contracts with Cal Fire (formerly the California Department of Forestry or “CDF”) for fire service. Data for some cities was unavailable or was not made public.

¹ Calls for Service, except Grover Beach which defines these as “Citizen Contacts” and includes such things as traffic stops and other officer initiated activity

TABLE 9: FIRE SERVICE COSTS – FY 2008²

Fire	Population	Budget	Expenditures Per Capita	Calls For Service (CFS)	Expenditures Per CFS
Morro Bay	10,135	\$1,611,035	\$159	1,742	\$924.81
Arroyo Grande	16,415	\$1,578,000	\$96	1,680	\$939
Atascadero	27,343	\$4,129,950	\$151	2,479	\$1,666
Grover Beach	12,802	\$1,019,550	\$80	1,500	\$680
Paso Robles	27,973	\$5,893,100	\$211	2,500	\$2,357
Pismo Beach	8,394	\$2,100,483	\$250	1,700	\$1,236
San Luis Obispo	42,963	\$10,294,800	\$240	4,332	\$2,376
Capitola	9,507				
Fort Bragg	6,785				
Half Moon Bay	12,308				
Ukiah	15,385	\$3,035,421	\$197	2,000	
Peer Mean	17,988	\$4,007,329	\$175	2,313	\$1,733
Peer Median	14,094	\$3,035,421	\$197	2,000	\$1,518

In gross terms, both the police and fire departments in Morro Bay have budgets that are substantially less than the full-service departments in any of the peers. The Morro Bay Police Department responds to approximately 1,569 Calls for Service per 10,000 in population while the peers respond to 1,479 Calls for Service per 10,000 in population. The Morro Bay Fire Department responds to 1,719 Calls for Service per 10,000 in population compared with 1,314 calls for service per 10,000 in population in the peers. Clearly, service demands from the Morro Bay community are high, and particularly so for fire services and emergency medical services (EMS). Yet funding of these services has fallen well below that of peer cities.

This is an important finding because in defining a financially sustainable future for the City of Morro Bay, increases in funding for both police and fire have to be recommended as part of any credible turn-around strategy.

Police Services

In the analysis of police services, there are many factors that contribute to whether the cost for service is appropriate in a given community. Morro Bay's Police Department faces several challenges. The per capita costs

² Arroyo Grande and Grover Beach have combination FT / PT fire departments. Pismo Beach has a Cal Fire contract providing managers, captains, and engineers. Line fire fighters are all "reserve" fire fighters paid on a per shift basis. Capitola, Fort Bragg, and Half Moon Bay are served by regional volunteer fire districts without published budgets. Separate budget and staffing for the fire districts actually located in those cities is not available.

for police services are lower than either the mean or median of the peer cities, although not the lowest of a few agencies in the group. Morro Bay has fewer sworn officers than the mean or median of the peer agencies as listed in Table 10. Data from some cities was unavailable or was not made public.

TABLE 10: POLICE STAFFING AND ESTIMATED WORKLOAD – FY 2008

Police	Population	Managers ³	Sergeant	Officer ⁴	Civilian	Volunteer	Population Per Sworn	Calls For Service Per Sworn
Morro Bay	10,135	2	4	11.5	6		579.1	908.6
Arroyo Grande	16,415	3	5	18	10		631.3	576.9
Atascadero	27,343	3	5	24	11		854.5	1065.6
Grover Beach	12,802	3	4	14	10	20	609.6	857.1
Paso Robles	27,973	4	6	33	19.5	6	650.5	837.2
Pismo Beach	8,394	3	5	15	10		365.0	
San Luis Obispo	42,963	6	8	49	30.7		682.0	474.6
Capitola	9,507	3	4	15	10.75		432.1	
Fort Bragg	6,785	2	3	12	7		399.1	
Half Moon Bay	12,308	2	4	12	5		683.8	
Ukiah	15,385	3	6	22	10.5		496.3	838.7
Peer Mean	17,988	3.2	5.0	21.4	12.4	13.0	580.4	775.0
Peer Median	14,094	3.0	5.0	16.5	10.3	13.0	620.5	838.0

As can be seen, Morro Bay has a police department with a population to sworn staff ratio that is lower (although just slightly lower) than the peers. There are many larger cities throughout the state that have much higher population to sworn staff level but those cities have the advantage of size to allow for the more efficient use of staff in meeting service needs. It is significant that the staffing level of the Morro Bay Police Department is lowest of all peer cities except Fort Bragg, which has a service population $\frac{2}{3}$ the size of Morro Bay's.

The Morro Bay Police Department operates a minimal level for all core functions. It has even phased out dedicated traffic enforcement and investigation due to budgetary restrictions. Without a substantial population commuting on City streets or other major risk factors, this may be a lower risk strategy than urban communities. The Chief of Police reported in his October 10, 2006 memo to the City Manager on the effects

³ "Manager" includes the titles of chief, commander, captain, and lieutenant (with the complement varying by department).

⁴ "Officer" includes police officers, corporals, and advanced officers of various descriptions.

of staffing reductions in 2005 that there was an 8% increase in traffic accidents in 2005 following elimination of the traffic enforcement position. Such a change in one year may not be the direct result of the enforcement program, although it certainly may have contributed.

The Morro Bay Police Department recordkeeping and dispatch services are combined in a fashion typical of small departments. Custodial services are managed by the Sheriff's Office, although the time spent transporting prisoners out of the City contributes to difficulties in meeting service response goals. Over the past year or so, the property and evidence function has been managed by police supervisors and managers in conjunction with their normal duties. Training is often a full time responsibility in public safety departments; in the Morro Bay Police Department, it is managed by police managers and supervisors in addition to other duties. This is one of several key areas where the City actually needs to make investments in the delivery of service delivery, and which are addressed in our recommendations.

Patrol Staffing - The highest priority functions of any police department are met by its patrol force. Other than the Police Chief, a single Police Corporal and Police Officer in the Investigations Unit, all sworn staff of the Morro Bay Police Department are primarily tasked with patrol functions. As Table 10 above indicates, the number of citizens served per police officer is not as high as many organizations. All of the peer organizations larger than Morro Bay have a greater number of citizens served per sworn officer. That relatively low ratio is a function of size of the City and its police department. The challenge in scheduling in larger police organizations is in meeting workload requirements at particular times of day and days of the week.

For small organizations like the Morro Bay Police Department, the greatest challenges are maintaining a shift schedule that provides a minimally adequate staffing level capable of responding to multiple incidents at once or providing enough assistance in dangerous calls for service to ensure safety of the employees and public. The general rule of thumb for staffing any single police position for 24 hours, 7 days a week is five employees to fill the one 24 hour position. The 15 sworn officers in the patrol unit are sufficient to provide three persons for each shift which is the current scheduling level.

Management Partners also examined the Morro Bay Police Department's staffing schedule. The department uses a three day/12 hours shift schedule. Staff makes up the additional four hours lost from a 40 hour workweek by working an extra eight hour shift every two weeks. The normal duty shift covers a day or night rotation; the make-up shift is scheduled according to departmental needs. Similar alternative work schedules are now common in California law enforcement agencies. Most were developed as an incentive for staff, putting, departments with traditional schedules at a labor market disadvantage.

Typically, Management Partners and law enforcement specialists look for appropriate use of non-sworn staff to ensure that sworn staff are not performing civilian duties. In the case of the Morro Bay Police Department, the replacement of sworn officers with civilian staff might produce some cost reductions but this would likely result in a decrease in response capability and increase risks to the staff and community because non-sworn staff cannot respond to any violent or potentially violent incident. Civilian staff offer larger departments the opportunity to reduce costs by replacing sworn officers with civilians. Those departments are able to maintain a sufficient sworn staffing level to meet demands for services that only can be performed by sworn peace officers. Therefore, we cannot recommend seeking cost savings based on the broader use of civilian staff in the patrol force. Although if a restoration of certain services is ever possible, civilian staff in patrol functions can provide value in many cases.

The Morro Bay Police Department spends in excess of \$120,000 per year on overtime which the Police Chief reports is spent primarily on filling out shift minimum staffing (two officers). When police departments have major cases, especially a series of major cases, overtime spent on report writing, investigations, and court appearances can also become expensive. However, overtime necessary to fill the patrol division shift complements is overwhelmingly the largest source of public safety overtime reported by police departments across the country. Organizations that are staffed at the exact level required to meet its daily minimum staffing levels can expect an overtime management challenge.

Attrition is particularly challenging for small organizations with tight scheduling plans. The need to carefully evaluate police officer candidates requires an extended period of time before hiring decisions are made. Newly hired police officers typically require a minimum of 12 weeks for training before trainees are prepared to operate on their own. Even experienced officers hired from other law enforcement agencies require at least four weeks of training and evaluation. The net result of these influences is that any position on the roster may be vacant for months before a replacement is fully trained. Given Morro Bay's low compensation rates compared to other agencies in the region, it is not surprising to find that the department is rarely at full staff and has overtime in excess of one full-time employee equivalent, primarily to fill the daily shift complement. The current overtime spending in the Morro Bay Police Department is within the realm of our experience with other law enforcement organizations. This does not mean to say further economies in overtime are not possible, but cutting down on overtime can produce unintended consequences that may be more expensive than the overtime itself. With tight overtime controls, we would expect to see an increase in response times to all calls for service, particularly lower priority calls.

Investigative staffing - At the time Management Partners conducted interviews in the City of Morro Bay, there was only one active investigator. The second investigator had been returned to patrol duty due to the loss of an unacceptably high number of patrol officers in recent months. The Chief of Police reported that investigators had in excess of 50 cases assigned to them and the cases assigned were only those “worthy of investigation,” meaning cases that are likely to result in the arrest of the person responsible given enough time and effort. In some large departments, investigators may have caseloads as high as 200 cases but it is impossible to actively investigate more than a small fraction of those. An active caseload of 25-35 cases that are reasonably solvable is more realistic.

Civilian staffing - Core functions such as dispatch, records, and evidence that are traditionally best filled by civilian staff are filled by civilian staff in the Morro Bay Police Department. The department provides five dispatchers to allow one 24 hour position for police and fire dispatch and police records services. The dispatcher also acts as the primary answering point for the City offices. As mentioned above, the five dispatchers are sufficient to provide one position available on a 24 hour basis. Traditionally, it is as challenging to maintain staffing in a dispatch center as it is to maintain patrol unit staffing. On duty ergonomic injuries and stress complaints are common. The City will most likely experience ongoing problems keeping the dispatch center staffed; the loss of even one person would place demands on all remaining staff to fill the vacancy with overtime. Mandatory overtime for any extended period of time will reduce morale and increase the likelihood that others will leave. Again this an issue that must be addressed with additional resources or an alternative approach, options for which are discussed later in the report

Property and evidence are functions that are often not well managed by police departments. Police departments collect a surprising amount of evidence and property in the course of a year. The improper management of evidence leaves an organization susceptible to losing criminal cases because proper custody and records of custody were not maintained. Losing valuable found or recovered property and illegal drugs are not an uncommon scandal for police departments. Although not a function that is of obvious direct benefit to the community, it is a function that cannot be ignored by any professional law enforcement organization. Therefore, Management Partners agrees with the appropriateness of filling the vacant evidence technician position, which was recently done.

Fire Services

The Morro Bay Fire Department has similar staffing challenges to the police department, with somewhat less pressure in terms of retention and recruitment, because fire service positions are keenly sought. It maintains a staffing level that is barely adequate to fill out a minimal shift schedule for a single station. While the police department had a workload that was not excessive for its size, the fire department has a workload that approaches twice that of its peers as shown in Table 11 below.

TABLE 11: FIRE STAFFING AND WORKLOAD FY 2008

Fire	Population	Managers	Captain	Firefighter	Civilian	Volunteer	Population Per Firefighter	Calls For Service Per Firefighter
Morro Bay	10,135	1	3	6	1	20	1,014	180.0
Arroyo Grande	16,415	2	3	3		36	2,052	
Atascadero	27,343	1	7	13	1		1,302	118.0
Grover Beach	12,802	1	4	3		30	1,600	83.3
Paso Robles	27,973	3	6	18	1.5	1	1,036	92.6
Pismo Beach	8,394	1	3	3	1	20	1,199	100.0
San Luis Obispo	42,963	5	13	27	8.3		955	96.3
Capitola	9,507							
Fort Bragg	6,785							
Half Moon Bay	12,308							
Ukiah	15,385	3	4	12	1		810	105.3
Peer Mean	17,988	2.3	5.7	11.3	2.6	21.8	1,279	99.3
Peer Median	14,094	2.0	4.0	12.0	1.0	25.0	1,199	98.1

It should be noted that Arroyo Grande and Grover Beach are combination fire departments that are sharing a Fire Chief . They do not provide paramedic services. Pismo Beach has a Cal Fire contract with two stations staffed – supplemented by 20 “reserve” firefighters. Capitola, Fort Bragg, and Half Moon Bay are part of regional fire districts and therefore their staffing figures do not translate well to a comparable single city service.

Despite the high workload level relative to peers, the Morro Bay Fire Department still responds to an average of less than five calls for service a day which would consume less than half of the day to accomplish. However, staffing of fire services is traditionally linked to two other significant issues:

- Response time
- Labor capacity for handling major events

The Fire Chief reports the response time for the department meets the industry standard of five minutes or less in 90% of emergency calls in just three of the City’s nine fire districts. The remaining six districts do not meet the standard, especially districts at the north end of town where driving time alone is often greater than four minutes.

In 2004, the Fire Department employed the Hunt Research Corporation to develop a strategic plan for the department. In the plan, the author describes several incidents in the recent history of the City where the resources of the department were inadequate to meet response demands. This included a 24 hour evacuation of a section of the City following a release of anhydrous ammonia.

Fire Staffing - The Morro Bay Fire Department employs enough professional staff to fill one fire company (the number of staff normally assigned to one piece of fire apparatus). Each shift has a Fire Captain, an Engineer, and a Firefighter. The professional staff are also trained as paramedics. The department also operates a “reserve” firefighter program intended to provide a cadre of trained individuals capable of supplementing the professional staff when absences must be covered or when a larger complement of staff is needed for major incidents. The reserve firefighters are paid at various rates depending on their experience when assigned to company duties.

The Hunt Research Plan evaluated the staffing of the department relative to peer agencies in the region in more detail than reported here. The conclusion of the Hunt report was that the Morro Bay Fire Department is understaffed relative to its peers and the report articulates several staffing insufficiencies that reduce the department's ability to meet industry standards of service. Several recommendations were made including:

- Reducing loss in structure fires by providing four on-duty firefighters for response to all structure fires
- Bringing 14 firefighters to a level of Emergency Medical Technician (EMT) and one Chief Officer within 10 minutes of major emergency (currently only one Chief Officer is on staff and is on-call)

In addition, the report includes several recommendations on enhanced training, acquiring additional apparatuses including a fireboat, and implementing several improved prevention and planning programs.

Management Partners agrees that the recommendations made by the Hunt Research Corporation are appropriate for the management and operation of a modern, professional, urban or suburban fire service, and the recommendations specifically address risks that are unique to the City of Morro Bay. However, the City is struggling to maintain a professional fire service at the current level, let alone enhance services in any significant way. In the course of Management Partners' interviews with staff members of the Morro Bay Fire Department and other departments, it was clear that the City's lower than market compensation rates are a source of discontent. Staff has a concern that Morro Bay will become something of a training ground for new firefighters that will leave for better paid positions elsewhere. Given the fiscal circumstances of the City this is probably an inevitable, but manageable problem.

Public Safety Cost Analysis

In the course of this assessment, Management Partners found both public safety departments are operating without any significant operating cost-inefficiencies. In fact, both departments are operating at less than appropriate funding levels for full-service public safety organizations. Full service police departments in the peer group for comparably sized cities (Pismo Beach, Capitola, Half Moon Bay, Ukiah) are funded at levels that are \$1.5 to \$2 million greater than the Morro Bay Police Department with comparable service populations. The Morro Bay Fire Department operates at a funding level comparable to the combination fire departments among the peer cities (Arroyo Grande, Grover Beach, Pismo Beach) but significantly less than other other full service departments (Ukiah).

In addition to the low public safety budgets relative to the City's peers, Management Partners believes the City cannot maintain funding at this low level for much longer. As stated above, salaries for non-managers in the fire department are less than the peers. In order to remain competitive in the labor market, that gap will have to be lessened or at least stopped from getting larger.

Revenues from the recent "Measure Q" regional sales tax increment are only sufficient to meet part of the total equipment and facility needs of the public safety departments. It cannot produce enough revenue to augment both police and fire staffing significantly, much less meet all the other needs of the City. . Correcting this structural defect in the City's public safety program will require some fairly radical changes in budget and/or service levels or service models.

Police Department - Management Partners evaluated reports on the 2005 proposals made by the San Luis Obispo County Sheriff to provide law enforcement services for Morro Bay. The proposal provided more than the current staffing level of line law enforcement officers although only one manager was provided in the proposal. Table 12 summarizes the proposal, and Tables 13 and 14 below show alternative options of the Sheriff's proposal, one matching Morro Bay Police Department staffing and another with reduced night staffing.

TABLE 12: COST ANALYSIS OF 2005 PROPOSAL (ADJUSTED FOR INFLATION) BY SAN LUIS OBISPO COUNTY SHERIFF TO PROVIDE POLICE SERVICES IN MORRO BAY AT MORRO BAY POLICE DEPARTMENT LEVELS

Position	Number	Unit Cost	Incidentals	Total ⁵
Commander	1	\$188,789		\$188,789
Sergeants	4	\$135,112		\$540,447
Senior Deputies	5	\$122,846		\$614,228
Deputies	10	\$112,102		\$1,121,017
Legal Clerk	1	\$69,508		\$69,508
.5 FTE Crime Prevention	1	\$45,617		\$45,617
Dispatcher	2	\$86,771	\$15,779	<u>\$189,321</u>
SUBTOTAL				\$2,768,927
County Overhead (11.96%)				<u>\$331,164</u>
SUBTOTAL				\$3,100,091
Vehicles				\$131,127
Supplies and Services				<u>\$327,818</u>
TOTAL				\$3,559,036

There were also some start-up costs required to implement the Sheriff's proposal which would amount to \$100,000 to \$200,000 before the service conversion were completed. The proposal included the cost of an anticipated salary increase for County staff (which was later implemented), while corresponding cost of living increases for City employees have been substantially less so we would estimate the current contract cost will approach \$3,500,000. The County charges 11.96% overhead on staff costs under the terms of the agreement to provide services. The overhead rate is included in the Sheriff's proposal.

Although the Sheriff's proposal is clearly more expensive than the current budget of the Morro Bay Police Department, we recommend new discussions be held with the Sheriff. The Sheriff's services are still substantially less than the budgets of the peer full-service police departments. We believe contracting with the Sheriff offers the best potential for long-term cost control. In the course of new discussions, the City should consider alternative service plans with lesser service levels than those currently provided by the Morro Bay Police Department. For example, the current staffing model includes two officers at all times of the day, and part-time coverage with a fourth officer. The workload of the City is not so great that it could not support a lesser number of officers in the early morning hours or during slow days or seasons. Staffing at that lower level may require a policy that cold crime reports will not be taken

⁵ Note the totals are slightly higher than those presented by the Chief of Police in his May 5, 2005 Memo in which the county overhead was not included on anticipated cost increases due to labor negotiations then in-progress.

during the low-staffing hours. If major incidents occur, deputies may not be able to arrive at the scene until sufficient back-up arrives from other areas of the County. In some cases, this would result in in-City response times being the same as rural County residents.

TABLE 13: COST ANALYSIS OF 2005 PROPOSAL (ADJUSTED FOR INFLATION) BY SAN LUIS OBISPO COUNTY SHERIFF TO PROVIDE POLICE SERVICES IN MORRO BAY AT TRADITIONAL COUNTY LEVELS

Position	Number	Unit Cost	Incidentals	Total
Commander	1	\$188,789		\$188,789
Sergeants	4	\$135,112		\$540,447
Senior Deputies	5	\$122,846		\$614,228
Deputies	6	\$112,102		\$672,610
Records Clerk	1	\$69,508		\$69,508
.5 FTE Crime Prevention	1	\$45,617		\$45,617
Dispatcher	2	\$86,771	\$15,779	\$189,321
SUBTOTAL				\$2,320,520
County Overhead (11.96%)				<u>\$277,534</u>
SUBTOTAL				\$2,598,054
Vehicles				\$131,127
Supplies and Services				<u>\$327,818</u>
TOTAL				\$3,056,999

TABLE 14: COST OF SHERIFF'S SERVICES (BASED ON 2005 PROPOSAL) USING REDUCED NIGHT STAFFING

Position	Number	Unit Cost	Incidentals	Total
Commander	1	\$188,789		\$188,789
Sergeants	3	\$135,112		\$405,335
Senior Deputies	5	\$122,846		\$614,228
Deputies	5	\$112,102		\$560,508
Records Clerk	1	\$69,508		\$69,508
.5 FTE Crime Prevention	1	\$45,617		\$45,617
Dispatcher	2	\$86,771	\$15,779	\$189,321
SUBTOTAL				\$2,073,307
County Overhead (11.96%)				<u>\$247,967</u>
SUBTOTAL				\$2,321,274
Vehicles				\$131,127
Supplies and Services				<u>\$327,818</u>
TOTAL				\$2,780,219

As a larger organization, the Sheriff and its County support departments offer several advantages:

- Better capable of absorbing vacancies and still meet its service level agreements.
- The County is responsible for meeting staffing minimums under the service level agreement.
- Relieves the City of complex recruitment efforts.
- The Sheriff is better able to provide specialist talents if needed (such as Crime Scene Investigation (CSI) services in a major case).
- The Sheriff can provide training programs developed by expert training staff with sufficient time to devote to the effort.
- Reduces payroll volume and other City-wide support costs.

Of course, there are disadvantages to such arrangements as well:

- The City cannot control its public safety costs through its own efforts.
- The City is a small part of the County-wide mission and may have little influence over priorities.

Historically, these problems have been painful in some cities served by the County Sheriff. However, several sheriff's offices throughout the state

are now doing a much better job at providing contract services to constituent cities. Management Partners has several clients in Los Angeles, Ventura and Santa Barbara Counties, including some much larger than Morro Bay that are served by the County Sheriff. The sheriff provides the client cities with excellent service at a cost that is less than what an independent department would require. Local substation commanders work collaboratively with the City Managers and City Councils in much the same manner as a city-employed Police Chief. Staffing levels are balanced according to each client's service needs and budget. Extra personnel are shifted in and out of town for special events, special enforcement needs, or provide adjunct staff in support of major investigations. Some of the extra staffing is included in the terms of the agreement; optional extra services are provided at reasonable cost. The L.A. County Sheriff's Department, by virtue of its huge size, has much greater depth than the San Luis Obispo County Sheriff which will limit the options. Regardless, the larger organization will have more options available than smaller ones.

Recommendation 11 (Alternative one): Obtain formal proposals from the Sheriff on the cost for providing law enforcement service to the City based on reduced service levels. We recommend a new discussion with the Sheriff that does not start with any presumed service levels. We recommend the base proposal be the level of service the Sheriff would provide the district should the City become unincorporated. Additional services can then be added to the proposal to bring it up to the level that is most consistent with community expectations at a cost that can be afforded. Many other staffing models may be available from the Sheriff, although they will undoubtedly require lesser service expectations from the community than those currently enjoyed. Choose a proposal that provides the best balance of cost and service. Prepare to educate the public that lesser services will be available.

Management Partners strongly recommends the City first evaluate lower service levels from the Sheriff and, at a minimum, exploring contracting of specific functions such as dispatch or investigations. We do not recommend further reducing service levels while keeping a police department, for liability reasons. If contracting with the Sheriff is not successful, however, and the City wishes to keep its own police department, it should expect to raise the police budget to a level that is comparable to peers with full-service police departments.

Recommendation 11 (Alternative two): Restore the Morro Bay Police Department's budget to the level of peer cities if the City chooses to keep its own police department. The reason for this recommendation, as discussed above, is that the current funding level is insufficient to operate a full-service police department let

alone ask it to absorb more reductions. We believe it is impossible to maintain services, staffing, and professional standards at the current funding level. Circumstances will eventually force the budget upward because of the need to correct the compensation problems in order to even minimally staff the department, equipment will have to be replaced due to failure, and procedure or training mandates will force costs to rise. This will need to be paid for through revenue enhancements or budget reductions in other areas.

Fire Department - As discussed above, parallel challenges exist in maintaining a full-service professional fire department. The department's current budget of \$1.6 million is less than half that of Ukiah which is the only peer city with a full-service fire department and a population within the same population range as Morro Bay. Grover Beach, Arroyo Grande, and Pismo Beach each have combination or contract fire departments whose average budget is \$1.57 million. Both Grover Beach and Arroyo Grande have smaller fire department budgets than Morro Bay, although the service population is larger in each case. Pismo Beach has a slightly smaller population and a fire service budget of \$2.1 million. Pismo Beach contracts with Cal Fire to manage the fire service. They also staff two fire stations, while the others staff only one.

As stated above, Management Partners does not believe the City can sustain a professional fire department at the current funding level. Staffing is currently at a minimal level and compensation is below market. In many respects the Department currently operates as a combination (paid-call) Department because of full-time staff vacancies.

Recommendation 12 (Alternative one): Adopt a paid-on-call fire department service model similar to that used by the majority of peer cities. Eliminate line fire fighter positions in favor of paid-on-call firefighters. Necessary staffing is roughly as follows:

- One Fire Manager (Fire Chief or Regional Cal Fire Commander)
- Three Fire Captains
- Three Engineers
- All 30-35 line firefighters are staffed from a paid-on-call force

It will be a major challenge to successfully make this transition. Without support from City and Department leadership there are problems which will be difficult to overcome, and it is worth some time to discuss the many challenges

Although each of the peer cities that operate paid-on-call fire departments are proud of the service of those organizations, they

do not operate at the same level as a professional department. While each department carefully preserves the quality of the senior staff (managers, captains, and engineers), the line firefighters are rarely as well experienced as the staff in professional departments. Morro Bay has found it difficult to attract new paid call fire-fighters and has had some of its best performers leave to work for Cal-Fire or the US Forest Service. While many of the paid-on-call firefighters are local residents with an interest in public service, most are young people preparing for a career in the fire service. Those firefighters have varying levels of training and experience, and paramedics and emergency medical technicians have different certifications depending on the internal and external training they have received. The City must also commit to preserving experienced senior team members. While the paid-on-call departments can tolerate differing skill levels in the firefighters, it must maintain a core professional staff to provide training and oversight. The challenges of the department will shift toward the design and operation of a basic skills training program and constant recruitment of paid-on-call firefighters in order to meet service demands.

At the end of a one to two year implementation period, there may be some minor savings in the shift to a paid-on-call fire department. Management Partners does not recommend a short-term budget reduction in order to fund the transition. The best opportunity for long term savings is in the formation of a regional paid-on-call department similar to those in the Fort Bragg, Capitola, or Half Moon Bay regions. Grover Beach and Arroyo Grande are also in discussions over sharing some personnel costs; nearby service districts should be approached in an attempt to identify the opportunity to do that. However, it will generally take several years to work through the political issues so we recommend the City's fire department shift to the paid-on-call structure as soon as possible. The regional approach will help with several of the City's current challenges in delivering fire service such as:

- Allowing enough budget capacity to employ one or more additional fire managers through the district
- Potential for additional coverage of the north end of town through shared facilities
- More efficient consolidated training and recruitment programs

In the development of such a program it may be advantageous to explore the Pismo Beach model where operation of the department is contracted to Cal Fire.

Management Partners believes that moving to a paid-on-call fire service model is the most attractive option to the City. However, if this move

should fail, the City should explore contracting for fire service with Cal Fire.

Recommendation 12 (Alternative two): Request a proposal from Cal Fire to provide the lowest possible level of fire service to Morro Bay and build up to a desirable service level from that point. The City should request a proposal from Cal Fire for the bare minimum service level it would provide and should then determine any necessary add-ons to raise service to an acceptable level. In this way a Cal Fire contract can be adjusted to meet specific community needs in a cost-effective manner.

Support Function Organization and Operations

The City's core business functions (Finance, Information Technology or IT, City Attorney, City Clerk, Human Resources) are staffed by a minimal number of people. Generally, all positions, including clerical support positions, appear to be justified based on workload. One exception is in the area of supporting the business license program. Business tax revenues are projected to result in \$219,000 in revenue in FY 2009. Currently there is one FTE devoted to this function. With only 1,400 commercial and industrial properties in town, processing the licenses should only require a fraction of an FTE in labor to operate the program. As a result, the position associated with this function is one support position identified for potential elimination. Extending the business license duration from one year to two years or more should result in a reduction in processing labor for the business license program.

The IT program consists of one person managing a typical inventory of municipal systems. Several of the business software applications are old and have been replaced in other cities with more current versions (although staff reports no major problems have resulted because of the older systems). Many of the desktop PCs are old and well past their useful life. Some server computers are also old and in need of replacement but overall the program is sufficient to meet the core needs of the City. Investments will have to be made over time to ensure effective program support but we do not recommend any changes except to support program reductions or reconfigurations in line departments as needed.

As the City contracts its services, the need for an in-house IT program may diminish. Outsourcing IT support is often more cost-effective than using internal staff in that situation. If the City adopts programs to outsource key line department functions, this will become increasingly more cost-effective. We recommend the IT function be reassessed in one to two years following program reductions in the line departments. Outsource IT support if the City is able to reduce its total number of business applications, personal computers, and other IT systems and if the City is able to identify a commercial provider that can serve the City's needs within a reasonable response distance (although most support is now provided using remote control software installed on the client PC).

Many service providers require the client's systems to be updated to recent software versions. An update program will generate some transition costs; for that reason, we are not recommending immediate action on the IT program. Once changes are defined in the broader service programs, the City will be in better position to know which existing services will not be needed and will therefore be less vulnerable to wasted transition costs.

Recommendation 13: Streamline the business license operation in order to reduce support department costs, and move the function to the Deputy City Clerk.

Recommendation 14: Reassess the IT program in one to two years. Outsource IT support if service bids are lower than current internal labor costs, a service provider is available within a reasonable response distance, and can service the particular hardware and software systems in place.

Community Development Functions

With the City's current low development activity, it is a financial burden to carry extra staff in the building, planning, and development engineering functions. However, private sector activity always begins to recover before the economic fortunes of the public sector. This has forced many city and county governments to carry too much staff during slow periods so they can absorb the upswing of activity that private sector economic recovery brings.

Obviously, the economic challenges of Morro Bay make it necessary to manage staffing of development functions in a careful manner in order to meet the needs of the development customer without creating a burden on the General Fund. In larger cities, development activity often is assigned to a cost center that isolates revenues and expenses from the General Fund. Managing a cost center requires extra accounting and other administrative support and the overhead is likely not worth the effort in a small city like Morro Bay. The reasons behind operating a cost center are appropriate to all cities in the current revenue-challenged environment.

Management Partners recommends staff be reduced to the minimum level needed to staff the public counter and serve the steady state business of the City. All extra work can be contracted to consulting companies, or to other cities or counties with larger staffs. The cost of the contract work can be directly charged to the development customer. Most cities contract General Plan, Housing Element updates, and other infrequent and labor intensive projects as well. In some locales, even building inspection can be contracted to private organizations or the County.

This approach affords the City the ability to expand its capacity as development activity increases without carrying an idle staff burden during slow periods.

Recommendation 15: Increase reliance on contract labor for community development operations. Specific functions to be contracted include building and engineering plan checks, special planning projects such as environmental impact reports and traffic impact studies, and overflow building inspection services if locally available.

Public Works and Transportation Functions

The condition of the City's roads and infrastructure is a primary concern for many in the community. Continuing budget reductions have reduced the ability to operate an effective maintenance program, and more budget uncertainty is likely over the coming several years. In order to meet the challenge of falling or inconsistent revenues, the City must be able to respond dynamically to both critical needs and reduced revenues. Contracting out infrastructure maintenance work affords the City greater flexibility, allowing it to expand services to address critical needs, and contract services when revenues are low.

A reduction in the level of in-house maintenance services will also allow the City to reduce its equipment and facilities maintenance, and internal support costs. In some areas, like custodial services and median or other landscape maintenance, outsourcing costs are typically less than the costs of having the services provided by in-house staff. The savings possibilities depend greatly on the region. Regardless of cost savings, the ability to expand and contract services depending on revenues allows the organization to be much more dynamic in handling its fiscal challenges.

Recommendation 16: Shift as much infrastructure maintenance work as possible to private contractors.

Contracts can be let for:

- Median and park maintenance
- Facilities maintenance
- Custodial services
- Road maintenance
- Storm drain maintenance
- Vehicle maintenance

The City's budget supports seasonal tourist trolleys with a cost of \$35,769 in FY08 and FY09. The trolleys are supported by fares, advertising, and other minor revenues, as well as by the General Fund. The City's overall transportation program includes a \$22,569 General Fund transfer in that is completely offset by a \$74,925 transfer out, which is the City overhead charge to the Transit Fund.

Given the reduced level of support for public safety, public works, and other core City service programs, any subsidy of optional programs should not be entertained. Management Partners recommends all such programs be cost-covering, including covering General Fund overhead required to support the trolley operation.

Recommendation 17: Eliminate General Fund support of the tourist trolley program. The program should be self-supporting and the City should raise fares if necessary to cover operating costs.

Parks and Recreation Functions

Morro Bay's recreation program fees are higher than the larger communities in the region but Management Partners' survey of those programs indicates that recreation programs are more heavily subsidized in those larger cities (e.g., are not self-supporting).

Currently, Morro Bay's recreation program also is not self-supporting and does not pay for itself. The City provides a General Fund subsidy to the recreation program for the amounts (expenditures less revenues) for FY08 listed in Table 15.

TABLE 15: FY08 GENERAL FUND SUBSIDY TO RECREATION PROGRAM (ADJUSTED FOR ADMINISTRATION COSTS ASSOCIATED WITH PARKS AND FACILITIES)

Funding Use	Amount
Administration	\$74,014
Sports	\$222,462
Youth and Teen Programs	\$271,247
Miscellaneous Recreation Programs	\$37,600
SUBTOTAL:	\$605,323
Less Revenues Received	\$317,000
TOTAL GENERAL FUND SUBSIDY:	\$288,323

One approach defined in the policies of many best practice cities is to establish a maximum dollar amount for the General Fund subsidy of the recreation program. The appropriate standard depends on policy objectives of the Council and an assessment of who benefits from recreation programs. In most cities, as competition for General Fund resources for basic city services increases, user fees that support specific users such as recreation programs are increased in order to reduce General Fund support. The primary advantage of establishing a standard for the General Fund support of the recreation program is that it establishes a stable level of support for the program, limits increases in General Fund support, and encourages recreation managers to plan and implement recreation programs that attract enough participants to generate adequate revenues to support new programs or services.

A comparison with peer cities with populations in the same range as Morro Bay and with published Parks and Recreation budgets is shown in Table 16 below. Data was not available for all peers.

TABLE 16: PEER COMPARISON OF PARK AND RECREATION PROGRAM COSTS, FY07-08

City	Parks and Recreation Budget	Budget Per Capita	Recreation Program Only	Rec. Budget Per Capita
MORRO BAY	\$1,427,585	\$141	\$605,323	\$60
PISMO BEACH	\$1,386,586	\$165	\$327,894	\$39
HALF MOON BAY	\$1,091,459	\$89	\$1,091,459	\$89
UKIAH	\$1,786,875	\$116	\$897,335	\$58
CAPITOLA	\$955,600	\$101	\$955,600	\$101
ARROYO GRANDE	\$2,066,675	\$126	\$1,248,125	\$76
PEER MEAN	\$1,457,439	\$119	\$904,083	\$73
PEER MEDIAN	\$1,386,586	\$116	\$955,600	\$76

The mean Parks and Recreation budget of the peers is \$1,457,439 (\$119 per capita). As a subset of that, the mean recreation program budget is \$904,083 (\$73 per capita). Morro Bay's total Parks and Recreation budget is less than the mean but slightly higher per capita. In our analysis, the higher per capita total rate reflects higher park maintenance costs than the peers. The recreation program alone has a per capita budget lower than the mean.

While the City operates a recreation program that is clearly not out of the ordinary, there may be opportunities for some further cost savings in recreation while allowing it to continue and which may even result in a more vibrant program that better addresses the interests of the community.

In the long-term the City would be well-served by removing most, if not all, recreation program costs from its budget. Even parks costs might be shed by the formation of a Parks and Recreation district endowed by the voters with a tax base of its own. The formation of such a district is fraught with political challenges and will take several years to accomplish if successful. Several short term options exist for reducing the cost burden of the City's recreation programming.

Recommendation 18: Create a cost center for the recreation program, into which all revenues and expenditures are moved. Subsidize the program to the degree decided by the Council, possibly in an amount equal to the Parks and Recreation Administration budget

alone. This would not mean that all General Fund support would go away but that it would be made explicit through clear and agreed-upon General Fund transfers to the Recreation enterprise. The Recreation enterprise would pay overhead charges to the General Fund as for all other enterprise funds, making the true cost of providing the service apparent. Allow the carry-over of recreation revenues from year to year to allow the program to weather the ups and downs of the economy. If significant funds accumulate, they can be applied to other costs of the Parks and Recreation program such as major maintenance projects.

Recommendation 19: Restructure the recreation programs to be cost-covering. Two possible models are in use in other cities:

City Managed - Recreation program managers conduct market research to determine the programs of sufficient interest to the community that would be commercially viable. Programs must be fully fee-covered including the pro-rated cost of program managers and support staff (including the City standard overhead rate).

Privatized - In this scenario, the City does not manage any recreation program offering. Facilities are rented to independent program providers at a rate intended to recover costs of basic facility maintenance and a pro-rated share of the program managers. The City may provide minimal advertising (such as program catalogs, online registration, fee collection) and other incidental support but program contractors or instructors bear the risk for success or failure of offerings.

Recommendation 20: Create a single, consolidated maintenance division for the City. The concept is that parks and facilities maintenance, harbor maintenance, as well as street and other infrastructure maintenance would become part of a single city-wide maintenance division to more efficiently maintain streets, parks, harbor, and all other facilities.

Recommendation 21: Create a Parks and Recreation District endowed in its creation by its own property tax assessment. This would occur through a Proposition 218 election requiring 50% approval of ballots from voters who would be assessed, weighted by value of assessment.

Summary of Operational Change Cost Impacts

As noted in the discussion above, the City has the opportunity for some cost savings by streamlining existing operations. Unfortunately, because of the extensive expenditure cuts already made by the City and the need to enhance spending on public safety, the net impact will not result in achievement of a financially sustainable future. Table 17 below shows the assumptions we have made for purposes of modeling expenditure changes in our fiscal model. All dollars are estimated on a 2009 basis.

TABLE 17: EXPENDITURE ASSUMPTIONS INCLUDED IN FINANCIAL MODEL (ROUNDED)

Program Change	Cost Increase	Process Streamlining/ Staff Reductions	Cost Reduction
Funding to meet minimum service standards (police, fire, economic development and other areas of City government)	\$780,000 (+\$200,000 startup costs)		
Reduce number of departments or Assistant City Manager position		\$92,000	
Eliminate Finance position		\$38,000	
Reduce Chamber of Commerce subsidy			\$150,000
Cut General Fund support of trolley			\$23,000
Make Parks and Recreation cost covering			\$221,000
TOTAL	\$780,000	\$130,000	\$394,000

Because cost reductions alone will not solve the problem, it is necessary to also look at revenue increases.

Revenue Enhancement Options

Morro Bay's structural deficit has had a continuing corrosive effect on the organization, reducing services and weakening the City's ability to deliver effective service in the future.

While "tightening the belt" and reducing expenditures is a short-term solution, it is one side of the equation. The other side is to expand revenues. Current funding sources have historically been weak and are expected to decline further for a variety of reasons, including:

- A reduction of power output and likely eventual closure of the power plant located within the City and reduction of associated fees paid to the City;
- A reduction in commercial fishing activity and associated fees and taxes and fees flowing from supporting commercial activity;

- A low share of property taxes and the danger of reduced assessments due to state-wide decline in residential property values further reducing property tax revenue;
- The danger of state take-aways (State reduction of financial support to municipalities); even small take-aways or postponements of payments may be damaging to a City in Morro Bay's financial condition.

Management Partners has identified several recommended options for the City to increase its revenue base, as noted below.

Recommendation 22: Sell surplus properties to provide a short-term financial bridge and to invest in economic development. The City's FY05 Combined Annual Financial Report (CAFR) reports over \$2.6 million in surplus real estate holdings.. Management Partners believes the City needs additional short-term revenue in order to transition the City organization and that this will be of more value than continuing to hold surplus property. One time revenues of \$2,000,000 spread over two years and designated for economic development and other General Fund programs purposes are assumed in the model.

Recommendation 23: Update the cost allocation plan and charge for direct services where appropriate. The cost allocation plan was completed in 1999 and has not been updated. Neither Harbor nor Water pay for environmental processing in planning, for example. Water and sewer should pay for their fair share of street resurfacing. Revenue increases are indeterminate.

Recommendation 24: Increase harbor fees. This would include several items, including:

- a. Slip/mooring fees should be set within 5% of private rates in the region.
- b. Institute a transfer fee on all slip and mooring transfers.
- c. Institute boat launch area parking fees on a yearly basis, even if on the honor system.
- d. Include utility costs in slip fees.

Recommendation 25: Raise encroachment fees. It is estimated that the City could gain approximately \$35,000 annually in revenue.

Recommendation 26: Implement use of Streets and Highways Code Section 5600-5630 to require property owners to fix sidewalks like San Luis Obispo does. This would essentially transfer costs associated with maintenance of public right of way in front of private property to the adjacent property owner.

Recommendation 27: Add fee to the refuse contract for street sweeping. Revenue increases are indeterminate.

Recommendation 28: Add a General Plan maintenance fee to all development and permit applications, as allowed by state law. Many California cities add an advanced planning surcharge of between 4-6% to permits for this purpose. Revenue increases are indeterminate.

Recommendation 29: Implement City-wide Prop 218 assessment for street lighting and street maintenance. Revenues are assumed at \$359,000.

Recommendation 30: Increase the City's Transit Occupancy Tax (TOT). Typical TOT levels in California reach 11-12%. An increase from the City's current 10% to 12% will result in a 20% increase in TOT revenues, projected to be \$364,000 annually starting January 2010.

Recommendation 31: Implement a Utilities Users Tax (UUT). Government Code Section 37100.5 authorizes cities to collect a utility user's tax on electric, gas, cable television, water, and telephone services. The tax is collected by the utility as part of its regular billing, and then remitted to the City. The tax rate is set by the City Council typically defined by the voter referendum used to authorize the tax. By way of comparison, Grover Beach charges 1% on telephones, gas, electric, CATV, water and raises \$169,500 per year or \$13.24 per capita. San Luis Obispo charges 5% and also includes cell phones, raising \$4,187,700 or \$97.47 per capita (or \$19.49 per 1% of UUT per capita). The average per capita per 1% is \$16.37. No other cities in the county charge a UUT. Huntington Beach has a power plant that uses natural gas and realizes \$118.59 per capita on a 5% UUT. Most cities who charge a UUT use from 5% to 7.5% of the user's bill.

Potential revenues for Morro Bay using \$19.75 per capita (based on a low estimate of the Huntington Beach rate) per 1% of UUT are shown below:

Percent UUT	Estimated Revenues
1%	\$200,000
2%	\$400,000
3%	\$600,000
4%	\$800,000
5%	\$1,000,000

Implementing a 5% UUT in July 2009 would yield \$1,000,000 annually.

Recommendation 32: Implement a general or special parcel tax. A parcel tax of \$120 per year per parcel will raise \$718,000, which could start in January 2009.

Recommendation 33: Make all enterprise funds self-supporting. Each enterprise fund should fully support its operations, including capital reserves and providing overhead payments to the General Fund equal to the amount of labor required to support the enterprise. In the past in Morro Bay, the General Fund has been required to provide labor to support these enterprises with legal, financial, human resources, information technology, and other general support services.

Recommendation 34: Establish a 911 fee, a fee added to local phone bills intended to support the operation of the local 911 center. Fees of this nature have become relatively common in California since the first such fee was established in San Francisco in the early 1990s. Such fees are particularly common in the San Francisco Bay Area. As a user fee, they may be implemented by action of the City Council; however, the legal standing of that interpretation is the subject of litigation. Most recently an appellate court in overturned a fee in Union City (May 2008), so the question of whether this is a fee or a tax will most likely have to be decided by the California Supreme Court.

Some telecommunications companies have asserted that the fee is, in fact, a special tax and therefore should be subject to voter approval under the terms of Proposition 218. SBC sued Santa Cruz County, Stockton, and Union City on these grounds. Union City has been ruled in violation of Prop 218 by summary judgment and recently lost the appellate court decision; Stockton has recently lost their case in court. Santa Cruz County was successful in

defending their suit, however the case was not published and therefore cannot be cited. Stockton has reportedly filed an appeal but it is not yet briefed.

Legal observers expect that phone companies will continue the litigation strategy in hopes of getting a published opinion that these fees are property related and require a vote. Management Partners estimates the City of Morro Bay might be able to recoup approximately \$195,000 with a fee of \$1.50 per month on approximately 11,000 phone lines.

If a tax measure is to be put to the voters, it should be a tax that produces higher revenues. This could start in July 2009 and raise \$195,000 per year.

Summary of Short-Term Turnaround Strategy

As noted, Management Partners created a dynamic financial model in order to test assumptions and outcomes of various financial scenarios for the City.

Five different alternative scenarios were seeded into the model and the outcomes are presented below. In order to understand these outcomes, the reader must recognize the various assumptions which were made.

Basic assumptions which apply to all five alternatives are shown in Table 18 below:

TABLE 18: BASIC ASSUMPTIONS FOR FINANCIAL MODEL

Fund	Assumptions
General Fund revenues	<p>All General Fund revenues are projected to grow at an average rate of 2.85%, except:</p> <ul style="list-style-type: none"> ▪ Educational Revenue Augmentation Fund (ERAF) at 0% growth ▪ Franchise fees at 0% ▪ Grants at 0% ▪ State reimbursements at 0% ▪ Investments at 0% ▪ Other revenue at 0% ▪ \$500k from power plant stops after 2012/13. ▪ Overhead transfers from enterprise funds grow at 2.85%, but should be raised based on updating the overhead cost allocation plan.
General Fund expenditures	<ul style="list-style-type: none"> ▪ Salaries increase 5% in 08/09 and in 09/10 and then 2.85% thereafter. This is to bring salaries to low median. ▪ Operations and maintenance costs increase at 2.85% annually ▪ Includes Chamber, County visitor's bureau, and animal control. ▪ Elections are costed by election years ▪ Promotions decrease by 16% from 07/08 to 08/09 in accordance with City budget, and then increase 2.85% annually thereafter
General Fund funding for capital projects	<p>An amount of 2.5% of the General Fund revenues is projected annually for capital improvements and equipment replacements.</p>
Other Funds	<ul style="list-style-type: none"> ▪ All other funds, including enterprise funds are assumed to be cost covering by raising rates accordingly or making reductions in expenditures. ▪ They are also assumed to fully pay their fair share of City costs, e.g., environmental studies, building permits. ▪ They are assumed to raise rates sufficiently to fund future capital and debt service needs.

Five alternative scenarios were created and plugged into the financial model to determine future outcomes for the City. The five alternatives are explained in Table 19 below.

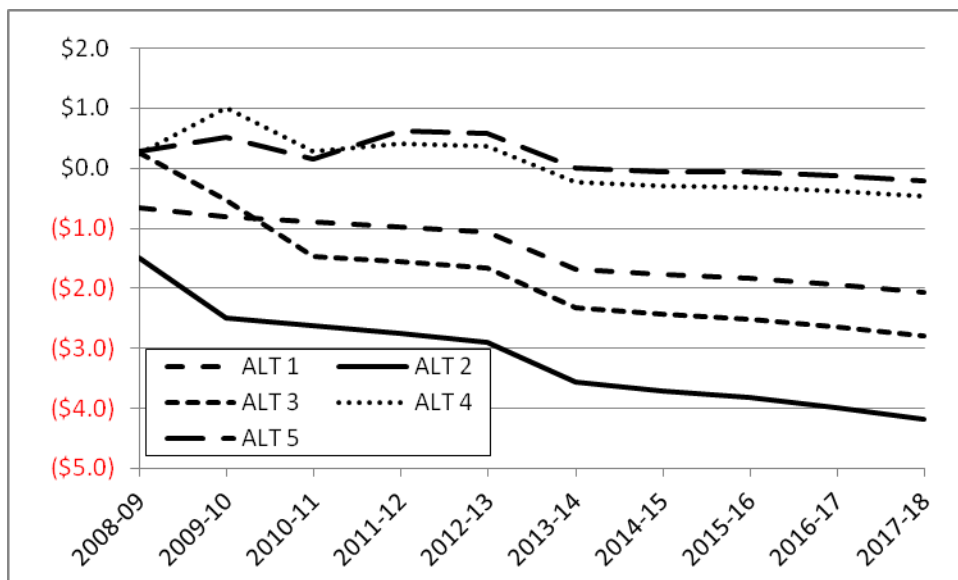
TABLE 19: FIVE ALTERNATIVES FOR FINANCIAL MODEL

Model	Assumptions/Explanation
Alternative 1	Makes no changes to current operations but includes all Basic Assumptions explained above.
Alternative 2	Adds funding to meet minimum levels of service city-wide for police, fire, and economic development, and splits these new costs over FY09 and FY10.
Alternative 3	<p>Maintains police and fire by making changes not requiring voter approval, includes changes from Alternative 2 noted above, and:</p> <ul style="list-style-type: none"> ▪ Reduces Assistant City Manager or number of departments (savings of \$92,000) ▪ Reduces Chamber of Commerce and the promotions budget subsidy (savings of \$150,000) ▪ Eliminates a position in Finance (savings of \$38,000) ▪ Cuts General Fund trolley support (savings of \$23,000) ▪ Makes Parks and Recreation cost covering except for administration or deletes programs or makes into Park and Recreation District (savings of \$221,450) ▪ Sells surplus properties (revenues of \$1 million in FY09 and \$1 million in FY10) ▪ Raises encroachment fees (revenues of \$35,000) ▪ Raises TOT from 10% to 12% (revenues of \$182,000 starting in January 2010, or \$364,000 annually thereafter) ▪ Implements 911 fee (revenues of \$195,000 starting in July 2008)
Alternative 4	<p>Minimizes police and fire costs and adds revenues to keep the City afloat. Alternative 4 includes all of Alternative 3 plus:</p> <ul style="list-style-type: none"> ▪ Contracts with Sheriff for police services (cost increase of \$600,000 which includes other costs such as Fire Dispatch, plus one time start-up costs of \$200,000) ▪ Converts some of Fire Department to volunteers (savings of \$25,000 in FY09 and \$50,000 in FY10) ▪ Implements a 3% Utility Users Tax (new revenues of \$600,000 starting in FY10; an alternative is to add 1% to make it 4% and raise an additional \$200,000 instead of doing a 911 fee. ▪ Institutes a Streetlighting and Maintenance Assessment District (revenues of \$359,000 annually starting in January 2011, based upon 5,985 parcels x \$5 x 12 months, which approximates the current level of spending on this function)
Alternative 5	<p>Provides an alternative keeping the City police force and adding revenues to cover future costs. Starts with cost reductions and new revenues in Alternative 3, plus:</p> <ul style="list-style-type: none"> ▪ Keeps police department rather than contracting with the Sheriff ▪ Adds a parcel tax (revenues of \$718,000 per year starting in January 2009) ▪ Adds an additional 2% to the Utility Users Tax for a total of 5%, raising an additional \$400,000 annually, starting in 2009/10. ▪ Retains the 911 fee in Alternative 3 above (not included in Alternative 4).

Figure 30 below shows the results of each alternative when plugged into the model. The results are sobering.

As can be seen, annual General Fund revenues less expenses in Alternatives 1, 2, and 3 all produce deficits each year in a steady decline. Alternatives 4 and 5 produce initial surpluses but those surpluses must be reserved to cover later year deficits.

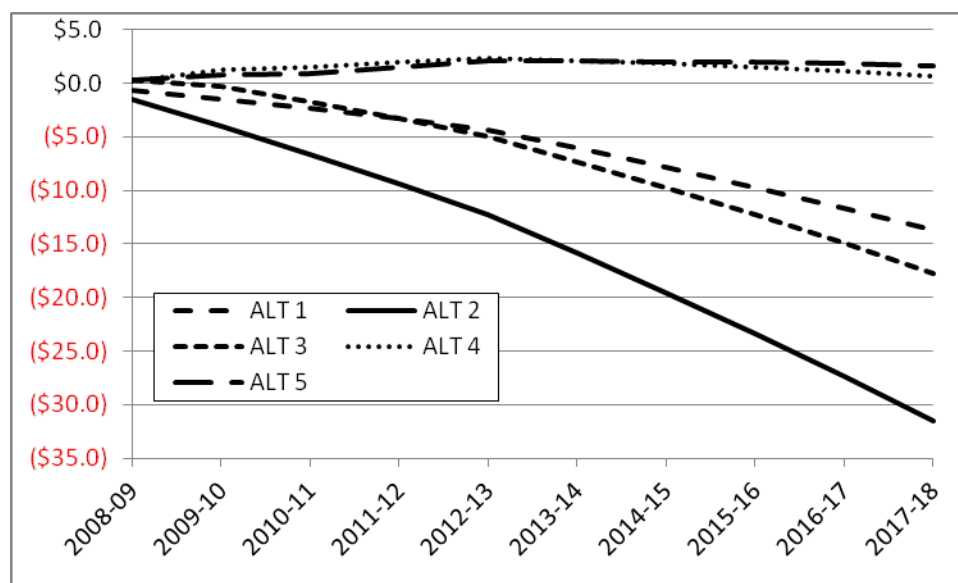
FIGURE 30: MODEL RESULTS: ANNUAL GENERAL FUND REVENUES LESS EXPENSES



Reserving the early years' surpluses in Alternatives 4 and 5 allows for the City to stay afloat through FY2018 (as shown below in Figure 31). However, unless there is growth in revenues above projections (such as from economic development activities), the City will be facing financial crisis in another 10 years. If there is an increase in annual revenue growth due to inflationary factors, these factors will also affect City expenditures and thus the bottom line. Another factor is the loss of the energy plant payment of \$500,000 per year which is projected to cease by FY2014; however, it could stop at any time the plant stops operating.

A look at the cumulative effect on the General Fund for the various alternatives is shown in Figure 31 below, in other words, if no changes are made (Alternative 1), the General Fund balance will be reduced by \$15 million. Note that Alternatives 4 and 5 are on top of each other and have essentially the same result.

FIGURE 31: MODEL RESULTS – CUMULATIVE EFFECT ON THE GENERAL FUND BALANCE



It is important to understand that these assumptions include only a low level of sales tax revenues relative to other similar cities. This is a huge problem, but also an opportunity. The City can take steps to stimulate sales tax development, as well as to develop other revenue sources, but this will take time. The major accomplishment of the strategies recommended in Alternative 4 and 5 is to provide the City with the time necessary to make such changes. Especially since the trend in Alternatives 4 and 5 are downward starting about 2013-14.

Long-Range Strategy

The City of Morro Bay has been under increasing economic pressure for many years. We believe that the City cannot expect to remain a full-service city in light of its many economic challenges. With the reduction of activity in two of the City's key revenue drivers, commercial fishing and reduced operations at the power plant, the nature of the City's dire situation is clear. Long term planning must be done with the expectation that neither operation will be a major factor in the City's future.

It should be clearly understood that the current revenue challenges are unlikely to be short-term downturns that can be dealt with by another round of belt-tightening. Even when there is a general economic recovery, the City cannot expect to return to a service model that is remotely similar to what it has enjoyed over the past 20 years or so. To address this situation, we have recommended many radical reductions in City services and suggested revenue measures that will be politically challenging. Even with major reductions in City services, the City must also act to improve its revenue picture in order to maintain even basic service levels.

The City's size and location effectively prevents the possibility of major industrial growth, but the City's survival is clearly dependant on making improvements in the revenue base. However, the City does have some economic development opportunities available to it and it must prepare to take advantage of these. Both the Power Plant and the Chevron Oil properties offer an opportunity for redevelopment activities. The City's sales tax levels are fairly low, indicating weaknesses in general commercial activity which might be improved and provide the City with operating revenues.

Other cities have successfully redeveloped to enhance the community's reputation, provide jobs, and increase City sales and property tax revenues. The City of Stockton redeveloped its "Dean DeCarli Waterfront Square" to create a safe and attractive public space. This former blighted parking lot site was contaminated by underground storage tanks and creosote piers. The Stockton Redevelopment Agency acquired the project area in 1998 and facilitated acquisition, assessment, and cleanup of the soil and groundwater. Community participation in planning was extensive, and a comprehensive public awareness and involvement campaign was undertaken to gather input from downtown stakeholders and develop consensus. The new Square includes a sunken plaza, numerous trees and planters, stadium seating, viewing platforms, and a cascading waterfall, among other amenities and has become a gathering place linking the downtown waterfront with the Central Business District. Other cities have undertaken similar improvements by adding pedestrian malls which abut the waterfront, providing supplies and amenities for beachgoers and creating a fun, attractive place for visitors to come and spend their money.

All economic development programs require years of effort and investment with important actions to be taken at critical moments. The City must position itself in advance to take the appropriate actions as they present themselves. The greatest opportunity for improvements is the development of the power plant site and the Chevron properties. Activity at the Chevron property is already slowing, making sale of the property likely.

In order to take advantage of the opportunities these properties provide, the City must take several steps which are outlined in the following recommendations:

Recommendation 35: Coalesce a vision of the City's future, building on the City's environmental advantages. The vision should not include any significant reliance on commercial fishing activity in the decade(s) required for the local fisheries to recover. A shift toward recreational fishing, boating, and other tourist activities offer the most likely opportunities for success.

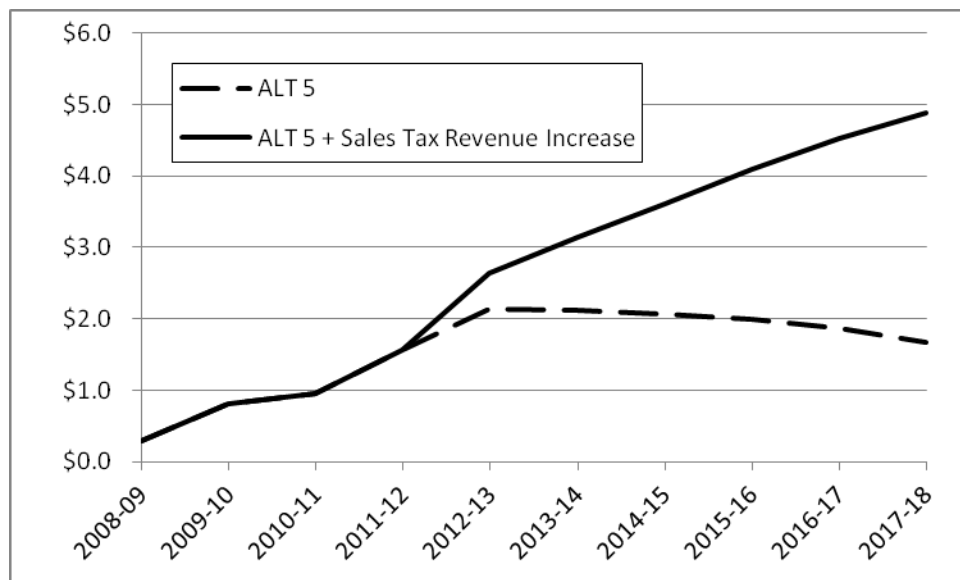
Recommendation 36: Finalize the General Plan update and secure approval from the Coastal Commission in order to implement fundamental economic development on the major properties and any secondary areas.

Recommendation 37: Develop and implement a Redevelopment Agency in conjunction with plans to develop these properties. The first step would be to commission a redevelopment feasibility opinion from a qualified consulting firm. Assuming this assessment is positive, and Management Partners believes that it will be, creating a redevelopment plan and agency will take about 12 months.

Recommendation 38: Proactively develop a strategic plan to redevelop City-owned harbor property, the power plant, and Chevron properties. With the reduction of activity in the Chevron property and its plan for eventual sale, the City must act quickly to define a redevelopment area in order to create tax advantages for its eventual redevelopment. That tax incentive may be a critical element in attracting developers to the site.

Through effective redevelopment efforts, the City should hope to increase its sales tax revenues. Figure 32 below shows what happens when the City can successfully increase its sales tax revenues only half way to the average level observed in the other cities in the county. Here we assume that the City has implemented the changes in Alternative 5 and begins seeing an improvement in 2013, gradually reaching half of the average level of sales tax revenues per capita.

FIGURE 32: CUMULATIVE EFFECT ON THE GENERAL FUND BALANCE OF IMPLEMENTING ALTERNATIVE 5



By taking these steps, the City will be positioning itself for long-term financial improvement while simultaneously establishing its identity into the future.

CONCLUSION

Management Partners has recommended many strategies that, if implemented, will help resolve the City's structural deficit for the next 10 years. Although the City budget is complex, the keys to eliminating the structural deficit and maintaining a sustainable financial plan are relatively simple and straightforward. By definition, a structural deficit exists when the projected required annual expenses of the City's General Fund exceed the projected annual revenues on a continuing basis. As a result, the City's required reserves and fund balances are projected to continually decline and eventually be depleted because of the expenditure/revenue imbalance. The straightforward solution to the structural deficit is to reduce expenses and/or increase revenues so that the projected revenues exceed the projected expenses consistently on an annual basis.

Critical to long-term financial success are questions regarding the vision for Morro Bay's future. What kind of place is Morro Bay? What does it want to become? Do residents want to pay to retain the high-level of service provided by the City or disincorporate and return to lower service levels provided by the County?

The City's financial condition is the result of a series of choices made by the City staff, Mayor and Council annually as a part of the budget process. If the City makes certain choices and difficult decisions as a part of the annual budget process, the result will be a sustainable financial future in the short-term and a stable General Fund.

The City of Morro Bay, like other cities in California, must make these important policy choices in an environment that is characterized by transparency and responsiveness. Groups that represent the needs of the community are well organized and articulate, and each make persuasive appeals for the City to invest its scarce resources to increase service levels.

One of the positive outcomes from a review such as this is the potential to increase public awareness regarding the tough issues and choices facing the City. City staff members should begin a process of public dialogue and encourage broad public involvement in these critical policy decisions. The ultimate solution to resolve the structural deficit and to create and maintain a healthy financial environment involves hard choices on both sides of the spending and revenues equation. Ultimately, the financial

policies and practices of the City should reflect the vision and values of the residents and taxpayers of Morro Bay. Although it is relatively easy to identify and articulate the prudent budget policies that will lead to financial sustainability, the appropriate balance between expenditures and revenues is less obvious. The role of the Mayor and Council is to create an environment in which they can engage in a two-way conversation regarding important choices. For example, the financial data reviewed from peer cities in the region as a part of this study demonstrates that some peer cities have made policy choices to establish revenue streams that are higher than other cities in the region on a per capita basis. Other cities have chosen policies that result in lower taxes and revenues.

There is no right or wrong answer to this basic “price of government” question. This report has provided many options and recommended strategies to achieve financial stability. Recommendations include both tax and fee increases and expenditure reductions. The residents of Morro Bay, through their elected leaders and ultimately at the ballot box, must decide the proper balance for themselves. Once those key choices are made, it is crucial that the City establish and follow prudent budget and financial policies which will lead to a sustainable and balanced financial environment that provides service at levels acceptable to the community.

ATTACHMENT A – SUMMARY LIST OF RECOMMENDATIONS

Expenditure Control Strategies

Recommendation 1: Use this report to lobby the Coastal Commission for an expeditious approval of the City's General Plan.

Recommendation 2: Hold an annual policy meeting for the City Council to develop a set of longer-term goals and subordinate objectives to guide staff.

Recommendation 3: Incorporate overall goals from the Council's policy meeting into a set of budget directions for each department head as a guide for program development.

Recommendation 4: Eliminate the Assistant City Manager position or consolidate some operating departments.

Recommendation 5: Reduce the City's contribution to the Chamber of Commerce, other charitable groups, and for promotions and advertising.

Recommendation 6: Prepare an updated overhead study.

Recommendation 7: Investigate contracting all daily operations of the Harbor Department to a professional harbor management company.

Recommendation 8: If the City chooses to retain harbor operations, transfer harbor maintenance functions to a consolidated maintenance division.

Recommendation 9: Reduce the Harbor Patrol function to one or two officers charged with enforcement duties only.

Recommendation 10: Manage administrative functions such as derelict boat removal using non-sworn staff.

Recommendation 11 (Alternative one): Obtain formal proposals from the Sheriff on the cost for providing law enforcement service to the City based on reduced service levels.

Recommendation 11 (Alternative two): Restore the Morro Bay Police Department's budget to the level of peer cities if the City chooses to keep its own police department.

Recommendation 12 (Alternative one): Adopt a paid-on-call fire department service model similar to that used by the majority of peer cities.

Recommendation 12 (Alternative two): Request a proposal from Cal Fire to provide the lowest possible level of fire service to Morro Bay and build up to a desirable service level from that point.

Recommendation 13: Streamline the business license operation in order to reduce support department costs, and move the function to the Deputy City Clerk.

Recommendation 14: Reassess the IT program in one to two years.

Recommendation 15: Increase reliance on contract labor for community development operations.

Recommendation 16: Shift as much infrastructure maintenance work as possible to private contractors.

Recommendation 17: Eliminate General Fund support of the tourist trolley program.

Recommendation 18: Create a cost center for the recreation program, into which all revenues and expenditures are moved.

Recommendation 19: Restructure the recreation programs to be cost-covering.

Recommendation 20: Create a single, consolidated maintenance division for the City.

Recommendation 21: Create a Parks and Recreation District endowed in its creation by its own property tax assessment.

Revenue Creation Strategies

Recommendation 22: Sell surplus properties to provide a short-term financial bridge and to invest in economic development.

Recommendation 23: Update the cost allocation plan and charge for direct services where appropriate.

Recommendation 24: Increase harbor fees.

Recommendation 25: Raise encroachment fees.

Recommendation 26: Implement use of Streets and Highways Code Section 5600-5630 to require property owners to fix sidewalks like San Luis Obispo does.

Recommendation 27: Add fee to the refuse contract for street sweeping.

Recommendation 28: Add a General Plan maintenance fee to all development and permit applications, as allowed by state law.

Recommendation 29: Implement City-wide Prop 218 assessment for street lighting and street maintenance.

Recommendation 30: Increase the City's Transit Occupancy Tax (TOT).

Recommendation 31: Implement a Utilities Users Tax (UUT).

Recommendation 32: Implement a general or special parcel tax.

Recommendation 33: Make all enterprise funds self-supporting.

Recommendation 34: Establish a 911 fee, a fee added to local phone bills intended to support the operation of the local 911 center.

Long-Range Strategies

Recommendation 35: Coalesce a vision of the City's future, building on the City's environmental advantages.

Recommendation 36: Finalize the General Plan update and secure approval from the Coastal Commission in order to implement fundamental economic development on the major properties and any secondary areas.

Recommendation 37: Develop and implement a Redevelopment Agency in conjunction with plans to develop these properties.

Recommendation 38: Proactively develop a strategic plan to redevelop City-owned harbor property, the power plant, and Chevron properties.

ATTACHMENT B - ONLINE SURVEY RESULTS

Question 1

How closely do you follow the news about Morro Bay city government and the city budget?

Answer Options	Response Percent	Response Count
Very closely	51.3%	58
Somewhat closely	38.1%	43
Not too closely	10.6%	12
Not at all	0.0%	0
Don't know/NA	0.0%	0
<i>answered question</i>		113
<i>skipped question</i>		0

Question 2

The City is considering strategies under four different categories to resolve the structural budget deficit. These categories are as follows:

New/Increased Revenue Sources: Includes measures such as raising taxes and fees to increase City revenues.

Service Delivery Model Changes: Includes changing city work rules, organizational structure and policies to deliver services at less cost than the current approach.

Expenditure Controls/Shifts: Includes shifting various expenditures from the City General Fund to other special purpose funds, which may require organizational or operational changes.

Service Delivery Reductions: Involves elimination of or further reduction of services deemed to be of lesser priority to reduce costs.

Please rank your opinions of each of these strategies from top to lowest priority.

Answer Options	Top option	Second best option	Third best option	Least best option	Response Count
New/Increased Revenue Sources	61	17	15	18	111
Service Delivery Model Changes	35	28	37	6	106
Expenditure Controls/Shifts	11	46	31	17	105
Service Delivery Reductions	6	13	23	65	107
<i>answered question</i>					113
<i>skipped question</i>					0

Question 3

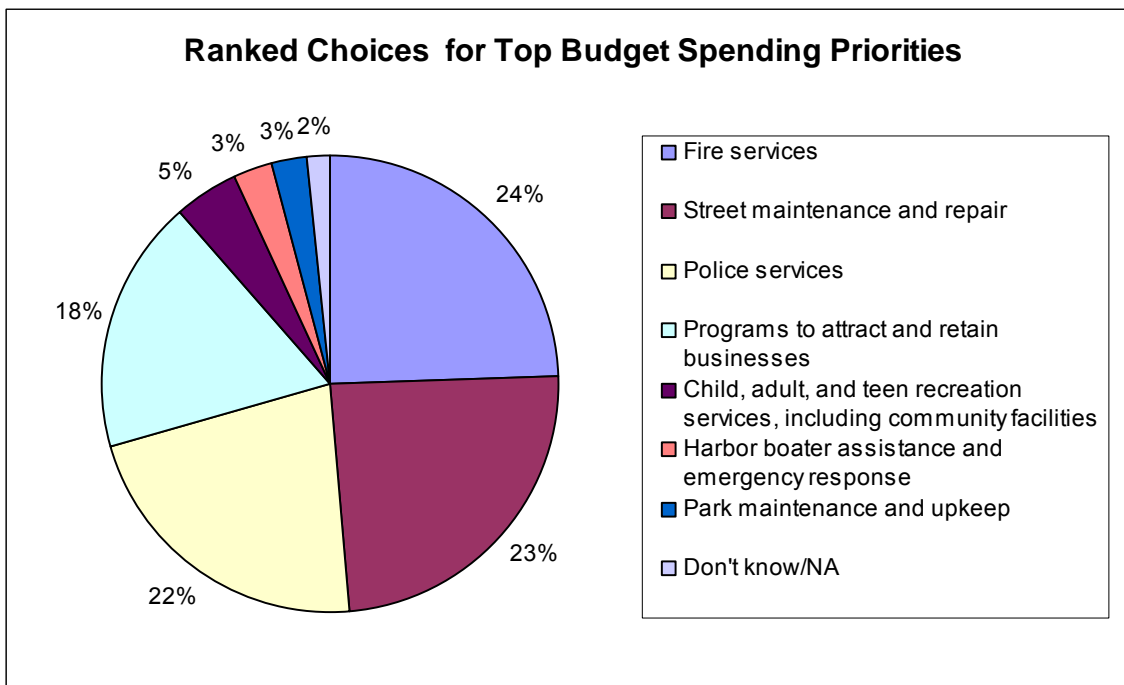
For each department activity below, indicate whether the City spends too much, about the right amount, or too little.					
Answer Options	Too much	About right	Too little	Don't know	Response Count
Fire Department	24 24%	38 38%	27 27%	11 11%	100
Building code enforcement	8 8%	41 41%	28 28%	24 24%	101
Tree trimming	14 14%	35 35%	27 27%	24 24%	100
Harbor boater assistance and emergency response	19 19%	57 57%	4 4%	20 20%	100
Maintaining parks and open space	32 32%	52 51%	6 6%	11 11%	101
Street maintenance and repair	5 5%	15 15%	75 74%	6 6%	101
Recruiting and training City employees	4 4%	50 51%	25 25%	20 20%	99
Police Department	41 41%	24 24%	26 26%	10 10%	101
Community facilities	12 12%	57 58%	14 14%	15 15%	98
Attracting businesses to Morro Bay and keeping existing businesses here	10 10%	26 26%	55 54%	10 10%	101
Providing child, adult, and youth recreation	25 25%	40 40%	24 24%	12 12%	101
Collecting revenues and managing city finances	4 4%	56 57%	19 19%	20 20%	99
Supporting arts and cultural activities	19 19%	43 43%	19 19%	20 20%	101
Traffic management and safety programs	16 16%	39 39%	28 28%	18 18%	101
Street cleaning	12 12%	61 60%	15 15%	13 13%	101
<i>answered question</i>					101
<i>skipped question</i>					12

Question 4

For the following budget spending items, which of the six categories should be highest priority and which should be the second-highest priority?

Answer Options	First Priority	Second Priority	Response Count
Street maintenance and repair	30	14	44
Police services	26	15	41
Fire services	20	35	55
Harbor boater assistance and emergency response	3	2	5
Park maintenance and upkeep	2	4	6
Child, adult, and teen recreation services, including community facilities	2	10	12
Programs to attract and retain businesses	19	17	36
Don't know/NA	0	5	5
<i>answered question</i>			102
<i>skipped question</i>			11

Weighted responses below – top priority votes =1, second priority votes = 0.5:

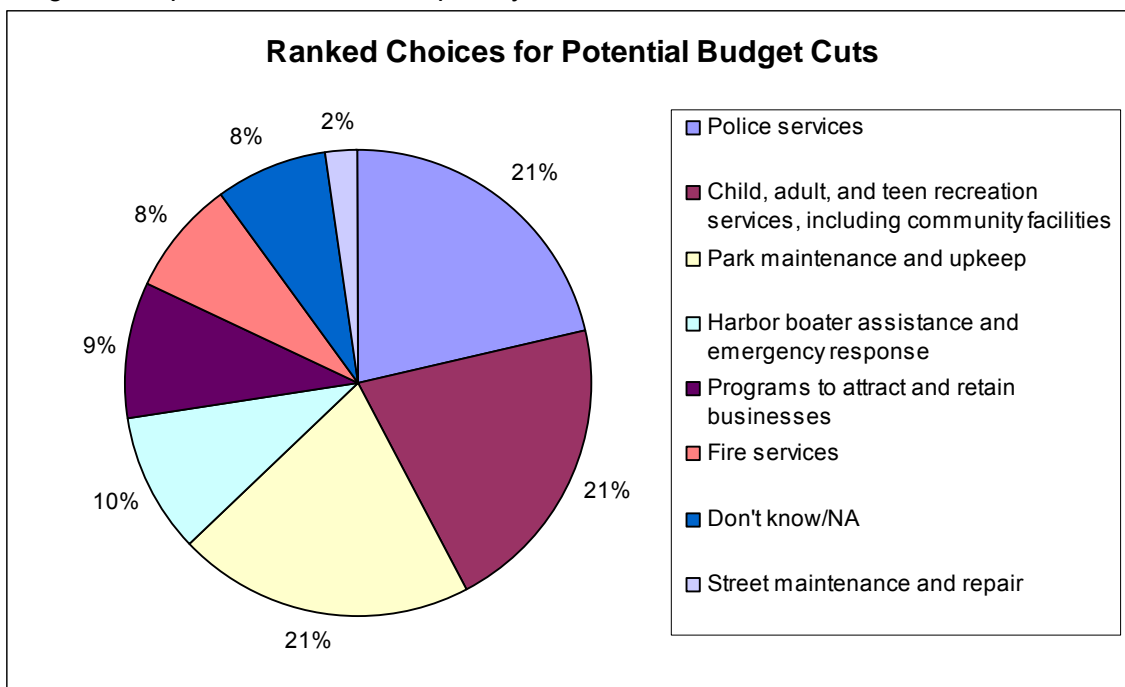


Question 5

For the following budget spending items, which of the six categories would you be most willing to see cut back in next year's budget? Indicate your first and second choices for cuts.

Answer Options	First Choice	Second Choice	Response Count
Street maintenance and repair	1	4	5
Police services	25	11	36
Fire services	5	13	18
Harbor boater assistance and emergency response	10	8	18
Park maintenance and upkeep	18	23	41
Child, adult, and teen recreation services, including community facilities	19	22	41
Programs to attract and retain businesses	12	3	15
Don't know/NA	8	7	15
<i>answered question</i>			100
<i>skipped question</i>			13

Weighted responses below – first priority votes =1, second choice votes = 0.5:



Question 6

To increase direct revenue that the City receives, how strongly do you support the following?						
Answer Options	Strongly Supportive	Somewhat Supportive	Somewhat Opposed	Strongly Opposed	Don't Know/NA	Response Count
Increasing sales tax	29	30	18	20	3	100
	29%	30%	18%	20%	3%	
Adding a harbor use surcharge	37	36	7	10	9	99
	37%	36%	7%	10%	9%	
Increasing business tax fees	19	30	27	15	8	99
	19%	30%	27%	15%	8%	
Introducing parking fees	36	32	10	18	3	99
	36%	32%	10%	18%	3%	
Increasing wastewater treatment fees	20	41	13	17	7	98
	20%	42%	13%	17%	7%	
Issuing debt bonds to cover purchases	9	23	20	28	18	98
	9%	23%	20%	29%	18%	
Establishing more active corporate/community sponsorship of City facilities	35	40	12	1	12	100
	35%	40%	12%	1%	12%	
Increasing water fees	12	39	25	19	5	100
	12%	39%	25%	19%	5%	
<i>answered question</i>						100
<i>skipped question</i>						13

Question 7

Many City services could be performed by outside service providers. How strongly do you support the following?						
Answer Options	Strongly Supportive	Somewhat Supportive	Somewhat Opposed	Strongly Opposed	Don't Know/NA	Response Count
Contracting out City services	12	22	26	34	6	100
	12%	22%	26%	34%	6%	
Partnering with other jurisdictions that provide similar services	21	45	9	17	8	100
	21%	45%	9%	17%	8%	
Changing from Police and Fire sworn to civilian positions in areas where a sworn person is not required	35	25	5	24	11	100
	35%	25%	5%	24%	11%	
Changing management to staff ratios	42	32	8	8	10	100
	42%	32%	8%	8%	10%	
Consolidating departments or areas with similar missions	40	36	10	9	5	100
	40%	36%	10%	9%	5%	
Expanding interactive use of the City's internet	30	42	4	6	17	99
	30%	42%	4%	6%	17%	
Providing self-service areas and automated systems	33	46	5	6	10	100
	33%	46%	5%	6%	10%	
Managing property assets more proactively	68	21	1	1	9	100
	68%	21%	1%	1%	9%	
answered question						100
skipped question						13

Question 8

Part of the problem the City is experiencing is that expenditures are exceeding revenues. There are many potential suggestions for addressing expenditure controls and service reductions. How strongly do you support the following?						
Answer Options	Strongly Supportive	Somewhat Supportive	Somewhat Opposed	Strongly Opposed	Don't Know/NA	Response Count
Shifting funding from special funds and community based organizations to the General Fund as the law allows	29	25	15	14	17	100
	29%	25%	15%	14%	17%	
Changing the application of prevailing wage/living wage requirements for contractors	22	23	20	6	29	100
	22%	23%	20%	6%	29%	
Changing Police and Fire staffing requirements, both sworn and civilian	27	24	9	31	9	100
	27%	24%	9%	31%	9%	
Eliminating youth programs not related to health and safety	19	20	26	27	8	100
	19%	20%	26%	27%	8%	
Eliminating Police services that can be offered by other jurisdictions	33	25	10	26	6	100
	33%	25%	10%	26%	6%	
Eliminating adult programs not related to health and safety	23	29	22	18	8	100
	23%	29%	22%	18%	8%	
Lowering salary growth and benefits costs	11	11	15	57	6	100
	11%	11%	15%	57%	6%	
answered question						100
skipped question						13

Question 9

Recognizing that the City could be forced to cut some spending in the upcoming budget, indicate how acceptable or unacceptable new cuts would be to the following services or programs.

Answer Options	Completely acceptable	Somewhat acceptable	Not acceptable	Don't know/NA	Response Count
a. Reducing staff in the offices of the City Manager, Mayor or City Council offices	40 40%	30 30%	22 22%	8 8%	100
b. Reducing funds dedicated to Information Technology	14 14%	31 31%	48 48%	7 7%	100
c. Reducing funding to community based organizations	35 36%	40 41%	17 17%	6 6%	98
d. Reducing support staff, but <i>not</i> sworn police officers, in the police department	26 26%	31 31%	36 36%	7 7%	100
e. Reducing administrative staff at the fire department	13 13%	20 20%	58 58%	9 9%	100
f. Reducing staff in the Finance Department	16 16%	44 44%	26 26%	13 13%	99
g. Reducing staff in Public Services	23 23%	36 36%	31 31%	10 10%	100
h. Reducing street maintenance	9 9%	15 15%	71 72%	4 4%	99
i. Reducing funds for recruiting, training and recognizing City employees	18 18%	39 39%	36 36%	6 6%	99
j. Closing public facilities in neighborhood parks	13 13%	24 24%	59 60%	3 3%	99
k. Reducing funds for revenue collection and management of City finances	11 11%	27 27%	48 48%	14 14%	100
l. Eliminating City programs that educate youth	14 14%	25 25%	51 51%	10 10%	100
m. Eliminating crime prevention programs	16 16%	37 37%	39 39%	8 8%	100
n. Reducing police staffing dedicated to solving property crimes	18 18%	25 25%	46 46%	10 10%	99
o. Reducing mowing at parks	34 34%	46 46%	13 13%	7 7%	100
answered question					100
skipped question					13

Additional question: Boards, Commissions, and Council

In what capacity do you serve the city?		
Answer Options	Response Percent	Response Count
City Council	25.0%	5
Citizens Oversight Committee	15.0%	3
Community Promotion Committee	15.0%	3
Harbor Advisory Board	10.0%	2
Planning Commission	10.0%	2
Public Works Advisory Board	10.0%	2
Recreation and Parks Commission	15.0%	3
<i>answered question</i>		20
<i>skipped question</i>		3

Additional questions: Employees

How long have you worked for the City of Morro Bay?		
Answer Options	Response Percent	Response Count
Less than one year	7.8%	6
1 to 5 years	19.5%	15
5 to 10 years	35.1%	27
10 to 20 years	23.4%	18
20+ years	14.3%	11
<i>answered question</i>		77
<i>skipped question</i>		13

Are you a full time employee or a part time employee?		
Answer Options	Response Percent	Response Count
Full time	98.7%	75
Part time	1.3%	1
<i>answered question</i>		76
<i>skipped question</i>		14

Do you live in Morro Bay?		
Answer Options	Response Percent	Response Count
Yes	21.1%	16
No	78.9%	60
<i>answered question</i>		76
<i>skipped question</i>		14

In which department do you work?		
Answer Options	Response Percent	Response Count
Administration	2.8%	2
Finance and IT	11.1%	8
Fire	8.3%	6
General Services	0.0%	0
Harbor	4.2%	3
Police	26.4%	19
Public Services	34.7%	25
Recreation and Parks	12.5%	9
<i>answered question</i>		72
<i>skipped question</i>		18

General Comments

- The City currently owns a number of parcels within the City, some of which are residential in nature. I would suggest that these be sold (though, now might not be the best time) instead of rented out.
- Do not combine departments. Sell unused/unusable property to increase revenues immediately. Reduce sworn police force. Use contractors, if less costly than hiring personnel. Do not combine other separately designated funds into the General Fund.
- I would like to see the City combine the City Finance Director and Personnel Dir position. I would also like to see the City contract out for Fire and Police services.
- The current Council places too much importance on the need for MORE police officers in this community. A community that is very safe by nature and has not grown in population in years, but the Police Dept. has. The Council falls victim to their scare tactics and other necessary services within the City suffer. Just take a look at the Streets, as well as the Storm Water Management requirements that are being placed on the City with out the funds to fulfill them.
- Question 6 was confusing. One area talked about changing Police and Fire staffing requirements. I assume this meant a reduction which I am opposed to. Police staffing is currently below what it was 20 years ago.

Public safety (police/fire) should be the first priority of any city and is stated so in the California Constitution Article XIII Section 35(a). It further states that local officials have an obligation to give priority to the provision of adequate public safety services. This has not been the case in Morro Bay. In addition, the city needs to focus on comparable salaries and benefits or more employees will seek employment elsewhere especially in the public safety ranks. It will be difficult at best to recruit new police and fire employees being the lowest paid and having the highest housing and cost of living prices in the county and state.

I recommend focusing first on new revenue sources. The citizens of Morro Bay need to realize that the city can no longer afford to subsidize services and city politicians must agree to raise fees and look at new revenue sources instead of cutting services to shreds.

- I personally feel that there are many departments that have employees that have a lot of free time and therefore positions could be combined and eliminated. There are also some

departments that don't have any spare time or employees. I hope to see that each department is analyzed to make sure that they are being run efficiently and employee time/work is being used properly. I also think that there are some departments that could be combined eliminating high paid positions.

- Police and Fire should not be touched, period. Sworn and non sworn are already at bare bones level wearing multiple hats to compensate for the budgetary issues. The assistant City Manager position should be removed. That would save \$113k plus benefits immediately. Survey the residents and find out what they feel the priority should be. They are the ones who pay the taxes and should have a say in what and who gets cut. Contract out for City Attorney.
- Reduce excessive management positions
- The city government needs to decide how they can bring money into the city. Eco-Tourism is not the answer and the city is suffering because of it.
- Establish a redevelopment agency
- The City already has raided the enterprise funds if not past, then at least to the extent probably allowed by law. Water pays for all water usage in the City, but is charged for a very large share of the internal services provided by other departments.

There are many areas of overstaffing at the city and many areas where greater efficiencies could be obtained. For example there are three public access counters in the city (City hall, Public Services, and Parks and Rec) requiring 1-4 people to staff each in addition to fire, harbor, and police counters.

The city is very heavy in the department head to worker ratio. Largely the department heads spend time feeding on citizen complaints making it a closed feedback loop when there are more productive tasks that could be dealt with.

Harbor leases have been granted for a term (50 years) that exceeds the projected life of the facility at very competitive rates. While at the same time maintenance is neglected. There is no justification to have an underfunded maintenance program when the department has the ability to set lease rates.

Finally there are 10 people associated with development in one form or another to deal with approximately 40 projects a year. Assuming a value of 500k per project that is about 20 million a year in construction. The city has a higher level of staffing for each construction dollar spent then most construction contractors.

- City Council wastes time and money having staff research and report issues, and then disagreeing with them, almost on principle, it sometimes seems. Council doesn't seem to trust staff to do a proper job. Council could help stop useless waste of funds and repetitive research by marshalling themselves much better in this area. Try trusting staff; try trusting City commissions; try making decisions and sticking with them.
- One example of combining work group functions is Street Maintenance and Park maintenance. Combining these two groups could create a more efficient work group for the maintenance of the city infrastructure. Street Trees/Park Trees Park and Parking lots/Street Paving could be accomplished more efficiently with perhaps a reduction in the management of the two staffs.

Having the City Engineer oversee more capital projects and the water and sewer crews. With the retirement of the CIP manager, hire in a lower level engineer to assist the Senior engineer with the Project Management.

- The City is VERY "top heavy". Reduction of management is needed. Also, the Police (mostly) and Fire Department's overtime budget is just sickening and totally abused.
- Eliminate "Assistant" City Manager Position
Combine Police & Harbor Departments
Contract Fire Dept. to Cal Fire
- Overtime expenditures at the PD (biggest offender) and FD are out of control. Too much management and not enough workers within the City.
- Public safety needs to be priority 1. The police and fire departments are already cut below effective levels. Reduce and/or eliminate Parks and Recreation, Streets, Public Services, and other service groups and consider partnering with other cities such as Cayucos and Los Osos for those services.

Increase revenue with greater fees, a public safety tax, and charged-for parking and parking meters. Increase transient occupancy tax again, and entice more hotels. Consider annexation of land.

- I believe the police and fire service is vital to the safety of the citizens in Morro Bay.
- The City of Morro Bay is extremely top heavy management. There needs to be elimination of the Police Commander position, and the Support Services position. Most of the job duties handled by these two positions could be absorbed within the police department at a savings of about \$150,000 per year. Also, eliminating take home vehicles for the Chief of Police, and the Commander at a savings of about 15,000 per year. During work hours they can drive the vehicle, however, if they do not live within 10 mi. of city limits or they can at least pay for their own fuel cost. Elimination of one corporal position could save enough \$ to pay for an additional part-time dispatcher. Eliminate outside assignments [SWAT Member] position in order to have that officer patrol the streets of MB and any associated overtime/equipment costs. Increase impound fees for towed vehicles. City is way to top heavy.
- First, please consider that departments have different numbers of employees, so the results are likely to be biased toward the largest departments. Also, there are varying levels of understanding of the City's services, their revenues sources, and the actual condition of the City's financial structure.

Second, solutions that propose to add additional responsibilities to existing positions without accompanying compensation are little more than a shuffling of the deck. Without strong leadership, these types of solutions are best left to theoretical discussions as few organizations have the strength or management to make them successful.

Third, public safety takes up a large percentage of the City's finances. This includes fire, police and to a limited extent harbor. Consolidation of these services is always one of the first things considered in these studies. While it is a reasonable topic for discussion, from top to bottom police and fire are both understaffed and compensated relative to the services delivered, and when compared to surrounding agencies. While there may be an opportunity to "cross train" a select group of police and firefighters, this type of solution generally requires an upfront investment. I would point to Rohnert Park and Sunnyvale, California as examples. Further, I do not view consolidation of the police or fire functions with the Harbor Patrol as practical. While the police and fire agencies have paramilitary structures, the City's Harbor Patrol does not have a rigid rank structure, hiring methodology, training program, or a culture consistent with other public safety functions. That said, you could have either police or fire assume responsibility for emergency response on the waterfront in a way that places hiring, training, and management under a single chain of command.

- Question #N Reducing police staffing dedicated to solving property crimes? We as the police department have no dedicated staff that is dedicated to solving property crime. In fact we have never had such a person.
- Stop buying real estate and sell what is sitting unused.
- I would like to see parking meters on the Embarcadero, and MBB. I would like to see overflow for motor home parking on Front St. Controlled and charged, instead of ticketed.

I'm sure there are other ways to raise income, that haven't been suggested. Some real tourist attractions that aren't based on the hope that eco-tourists will come and spend. I would like to see some logical approach to the general fund issues; however I don't have a solution. Cutting services will lead to contract services and that could be even more expensive without additional responsibility.

- Where did the money go? There are a lot of 1,000,000.00 homes in town. That should be some nice tax revenue?? Maybe fire could look at C.D.F.
- It is my belief some departments are fat and others on the slim side. There will always be some 'down' time no matter where you look but there appears to be more in some places than others. Some departments have large (somewhat excessive) overtime and professional development budgets while others have a bare minimum. Be proactive and schedule meetings and trainings when staff is working, not have them come in on their days off and accrue overtime.
- Close City offices on Friday. Reduce management personnel. Reduce site visits by public works staff for private property issues (sewer backups, tree questions, water pressure questions, etc).
- I personally feel that Morro bay has the potential to be a great city. You as the city council should be doing everything in your power to make that so. The city is dying due to no growth, and with no growth comes no money. We cannot keep relying on mom and pop stores who all carry the same merchandise to keep tourists to continue to come here. Simple ideas to bring in some revenue: we can follow what Pismo beach is doing by placing parking meters down on the embarcadero and possibly the rock parking lot. Maybe build an actual aquarium like Monterey down on the embarcadero. Morro Bay's image and identity is the ROCK. During the summer the city can hold a Movie night at the rock. Bring a large movie screen and play new or old movies for the community and surrounding cities kind of like a walk in drive in. Local restaurants can get involved and BBQ and sell their food. With the new boardwalk in place I feel this would be a great idea for families and friends. We all know there is nothing to do for families and youth in Morro Bay which leads to other things such as crime etc. You as city council need to address this issue of no growth and save this city from ruin. Times do change and we need to change and grow with the times to keep people coming back and wanting to stay in Morro Bay.
- I realize that the City needs to increase revenues and at the same time decrease expenditures. Since I am not aware of how the other departments work, I do not feel qualified to say that we can save money by reducing the administrative/support costs for any one department or stop mowing lawns. Rather a combination of developing what programs are "essential" to the citizens and how many people are needed to provide that service. Outsourcing is a possibility, but would need to be carefully looked at in each instance to see if it really would save money and still provide the level of service the Community expects and is willing to pay for.
- I strongly believe in a benefit assessment system for use of police and especially fire services, based on amount of usage of such services that would get charged according to use, with flat fees established for baseline usage. The City looked into this in the past 2-4 years, but for some reason it was dropped for an increase in the sales tax.

I feel that car allowances and city-provided vehicles for certain Department Heads need closer scrutiny.

The City needs to figure out how to attract light industry and/or manufacturing, and not put all its eggs into the tourism basket.

There are too many non-management employees, as defined, in the City's Management employee group. Also, numerous employees were moved into the Confidential group in recent years that I'm not convinced belong there either, as defined. Both these groups have higher employee salary and benefit costs. The City's definition of Management and Confidential employees is very specific. In City Hall, everyone is either Management or Confidential (or Dept. Heads) - all Chiefs, no Indians.

- Consider cross training Harbor personnel to augment emergency response needs of either police or fire.
- You are paying for too many studies and consultants that staff is qualified to do!
- The survey seems focused on cutting programs and services with little to no emphasis on finding revenue generating sources.
- Change city police to SLO sheriff
City fire to cal fire
- Corporate Sponsorship of public buildings/real property assets would allow for an outside funding source and a much needed overhaul of the City's infrastructure. An increase in user fees should be addressed, i.e. consolidation of the master fee schedule to eliminate any subsidized category.
- Police and Fire have too much and abuse their overtime.
- The City has too many employees at the management level and not enough general employees.
- The Police Department Budget is out of control. They could make many reductions without the loss of officers or personnel. Just look at the overtime!!
- If I had some detailed information of the cities budgeted and actual spending along with some sort of measure of past and present effectiveness in the different areas and some proposed tactics to go along with the proposed increases, decreases, cuts, and changes, I would probably be able to give more thoughtful input. As you can imagine, working in public services I have something of a feel for how funds are used in this department, but don't know much about the ins and outs of the harbor dept, finance dept, or some of the others. So I guess that if I were to answer many of the survey questions in any other way than "I don't know" my answer would just be based on my personal opinion and misperceptions...

I believe that in the long run the greatest benefit to the City will come from attracting, cultivating, and retaining competent and committed staff. Second, by attracting out of area money (tourism, industry, development, etc.) and carefully managing these sources of revenue in a way that maintains Morro Bay's one of a kind character. Third, empowering and rewarding staff for identifying and implementing strategies and tactics for improving efficiency and effectiveness within their own departments.

- The City needs to expand its economic base, by improving the character and charm of the downtown district and marketing the fact we are a vacation destination. Improving relations with the business community provide incentives for facade improvements. Provide an environment that makes visitors want to stay longer because it's friendly, comfortable and charming.

This survey is too vague and not precise.

Cutting dollars and services is not the issue, generating dollars without increasing fees, by promoting and getting more businesses and visitors will generate the revenue. The Council needs to make an investment in our City even if it requires borrowing to make the improvements, nothing ventured nothing gained.

Already had sales tax increase approved by voters. Consolidation of fire and police may be possible. Consolidation of non-licensed maintenance works positions (streets, parks, facilities) may work. Also consider adding harbor facility maintenance (docks/wharves) to these positions and obtain portion of funding from harbor fund. Combine harbor "safety" duties into existing fire/police? Possibly split out water and wastewater utilities into separate self-funded department, thereby allowing consolidation of existing general fund departments (rec/parks and pub serv) with minimal loss of service.

- I am unsure as to if this is legal or not, but I believe the Harbor Dept. should not have its own fund. Not only are they receiving 3% @ 50 public safety retirement for a job that I do not consider to be public safety, they don't have to worry as the rest of us do when it comes to budget crunch time.
- 1. Use the provisions allowed under the California Streets and Highways Code for Sidewalk and frontage maintenance, i.e. street trees. This may reduce claims and save city maintenance dollars.
- 2. Consolidate maintenance activities (Streets, Parks, Harbor, Facilities Water, Collections) under one manager to better allocate the resources.
- 3. Consolidate the engineering and project management functions of public services under the City Engineer and do not fill the position of capital projects manager with a high-level staff person. Fill the position with a journey level engineer/project manager.
- 4. Consider the purchase of equipment needed for pavement maintenance, i.e. grinder, and pavement spreader. This may eliminate the need for contracting projects out for local street reconstruction. This may require the assignment of non-street maintenance personnel to assist during paving operations. See item 2 above.
- 5. Use the recent 1B/Prop 42 bonding mechanisms for the financing of major street maintenance functions.
- We are currently hiring a new city manager. If the in-house candidate receives the position, I feel there are some consolidations of positions that can occur with admin and finance. I feel that it would allow R&P to re-establish their dept as they are currently in flux. I feel we spend too much on parks and not enough on possible claim areas like trees, sidewalks and streets (we have 5 parks maint and only 2 street, 5 water and 4 collection maint employees) In order to attract and maintain good employees there needs to be COLA's, increased benefit potential, possibility of promotion, etc... which has hit a road block as we speak. I also don't believe in lay-offs - hoping that we can find on-going revenue potential (i.e.: Morro Dunes RV Park!!!!) that can carry us without having to hit residents too hard. I think council needs to be better educated in the "if this - then not that" and be able to see the repercussions of their decisions - good luck there!!!!!!!!!!!! I was confused by many of the questions and look forward to getting some clarification on them!!! For example, we need to collect MORE revenues however we do manage our city finances to the best of our ability - the questions didn't allow for any differentiation there... also, I don't feel that police and/or fire are necessarily my first or 2nd priorities - but that

which was on the list - they were my only options... also that doesn't mean we need more - status quo is good which hopefully allows us to keep our youth and adult R&P programs viable. Look forward to the focus groups... bottom line - more on-going revenues... again - good luck with that!!!

- Lessen overtime costs by reducing minimum callback hours with Public Services and Fire Dept. Review Fire Dept General Alarm/call-back coverage costs. Re-evaluate Harbor Dept public safety status and income sources. Police Dept: Need at least 2 Detectives...had 3 in past; Dispatch understaffed - have to work ridiculous schedules to accommodate vacations, etc. used to have 3 Reserve Dispatchers...need at least 1. Staff is a bit "top heavy" at the moment, with 11 Supervisors including Chief and Commander, and now up to 7 regular patrol officer with the 2 new hires. Commander is probably the least expendable...works probably 60+ hrs week and is relied on constantly at all levels.
- I would find it very interesting to look at staffing norms for similar sized, full service Cities. Also to look at the type of calls Public Safety responds to. While their number of calls is high, a cat in a tree or plugged garbage disposal is not a health/safety issue. Furthermore, the budgets of some departments are at an all time low while other departments have been able to retain higher budgets (padded) due to a number of reasons-favoritism and lack of scrutiny. I feel those departments are specifically Public Services and Police. Good luck with this.
- The city needs to re-think their strategy regarding their property ownership. I believe that the city should sell the property or turn it into a useful structure, such as a convention center. Additionally, the city needs to charge for parking despite the charges that are placed on the businesses to date.
- The City needs to re-evaluate their real property that it owns and if there an actual need to continue ownership of the property or could it be sold for some extra funds. The City needs to realize that some positions and departments are absolutely necessary and others are a benefit. Also some departments rely on the others, such as if the city does not have a street maintenance department, then more people could fall, get injured, have more vehicle collisions and thus the city would have greater liability plus the time and cost of documenting each of these incidents and the time and money it takes for emergency services to respond.

The city may want to look into the idea of offering the power plant property to an Indian Reservation to see if a Casino may be beneficial or an option. It would bring in a lot of extra revenue to the city, and they usually have their own law enforcement on site, so the city would not need to provide law enforcement to the casino itself.

The city is going have to give up the idea of being a quaint fishing village, as it will soon be an abandoned fishing village.

LETS look outside the box and realize to survive we need to be realistic not idealistic.

How about offering an avenue for public input in both a confidential and non confidential manner.

I would like to see some opportunities for city employees to have assistance programs for housing. Unless a city employee is a long time resident of the city one cannot afford to purchase a home or reside in the city on their income alone. How sad, we can work here but not live here.

- The Police Department is in need of more officers. I think the city should do what is needed to protect our streets and homes from crime.

- Would like to see the parking lot at Anthony's on the Embarcadero turned into a parking garage and the restaurant sold so someone could bring in revenue. Empty buildings don't do the City or businesses any good. Sell the teen center property and let someone put in another trailer park or restaurant. The people the City outbid on the teen center property were going to bring in revenue to the City. Build an Indian Casino at the Tri-W site and have them pay into the general fund. Hire the Sheriff's department and get rid of the Police Department. Cayucos and Los Osos are doing just fine without their own police force. Show support for the power plant.

Hire more employees in public services, they are already understaffed and underpaid and most are NOT in the general fund. The City needs to improve the public services department and keep the City services up and running. Delaying services and capital projects only delays revenue and costs the City more in the long-run. Keep salaries in the public services competitive with the rest of the County instead of wasting money retraining people for the same positions and losing valuable knowledge. It takes money to make money, make the City look nice and keep all the services functioning and people will continue to visit. If the City cuts back on what makes it a City it will no longer function in a way that is prosperous. More revenue

- Personnel and Risk Mgmt could be combined and administer by Fiancé Director
- This city has a history of being business unfriendly. They need to promote businesses, raise fees to compare with other jurisdictions, put in parking meters that can be serviced and collected by police volunteer staff at no charge and start taking care of their employees to retain and attract quality people. We can no longer tolerate a "No Growth" policy. This city is no longer a quaint little fishing village and in order to prosper we must grow and start conducting daily business like a Fortune 500 Company. We will not survive these hard times unless we begin thinking of innovative ways to get out of debt, and to stay out of debt. If we lose Police and Fire Services, this town will be taken over by the criminal element and will no longer be considered a nice tourist town that people want to visit. We must keep our city safe in order to attract visitors from around the world. We should be giving business prospects special incentives to open a business in Morro Bay. Don't be afraid to allow franchises and other high revenue generating businesses from opening their doors within our communities. I have seen some of the hoops that our planning commission and City Council make would be business owners jump through. Businesses do not want to open in Morro Bay when it costs more to open the doors due to restrictions and assessments than some make in a year. Let's get out of the 60's and 70's and start building prosperous businesses and attracting customers from inside and outside Morro Bay to shop in Morro Bay. The police department and city staff could immediately save a great deal of fuel costs as well as help the environment if we begin replacing our vehicle's with Hybrid or alternative fuel vehicles. Bring back the motors program to the police department using new state of the art motorcycles that get better gas mileage, less maintenance, and are good revenue generators when the program is effectively functioning. Police officers when fully staffed also have the ability to perform duties while on bicycles and foot patrol minimizing the amount of fuel costs. A transport vehicle would be necessary in the event of arrests; however, this could be accomplished with a volunteer or a civilian employee being available to bring the vehicle to the scene. I know that some of these ideas seem like they would be a hassle or may not work, but we must all start sacrificing if we want to get our city out of the red and in the black. The police department is already working with less people that they have in years and the safety of our officers and community is paramount.
- The questions in this were worded in a way that made it hard to answer. Basically it seems the department heads make way too much money, including getting a car

allowance in which they don't even use for a new car (ours still drives our emergency vehicles to go to the city council meeting). The city needs to get out of the property management business and sell off the bad real estate purchases.

- This survey is an insult to the City of Morro Bay employees. It pits department against department and targets specific enterprise funds. The City has already reduced staffing and service levels and has reorganized/combined departments. Most employees have gone without significant raises or benefit increases for several years. The initial 4 options for saving money are really only 2; either raise revenues or reduce the number of city employees and reduce employee benefits, an inherent bias in the survey.

The survey is also biased towards cuts in specific departments and services over others. In the General Fund area Police, Fire, Street Maintenance, Recreation and Parks are mentioned more than other departments. Legal is not mentioned at all, Administration is not mentioned much and Finance is disguised often as "revenue collection" (only a small % of the Department's function/cost). The skewed structure of the survey biases the responses.

Asking employees if spending levels are appropriate for Departments they are not part of is asking for subjective and non-factual responses. Asking employees to target six categories for budget cuts that totally exclude Finance, Legal, Administration and Wastewater Treatment is very biased.

The General Fund shifts as much funding from enterprise funds as much as they can. As far as Enterprise Funds go, the Wastewater Treatment and Water Funds are barely mentioned; however the Harbor Fund is listed in almost every section. The survey is supposed to be anonymous but answering the "statistical" questions makes respondents identifiable.

Was there any review/approval of this survey and if so by whom? If this survey is representative of the services provided by Management Partners, the City is wasting their money.

- The city and its constant battle with funding are getting old. I'm happy to see change. Police spends the most so they should be cut the most. The city does not have major crime. I would like to see the division of the enterprise funds (water, wastewater) from the general funds when it comes to bargaining for wages. A utility division is common among other cities. When the water and wastewater employees go to bargain, we are forced to bargain with general funders who are generally broke most of the time. In order to maintain a professional workforce in these fields, an equity adjustment must be implemented and maintained. The city of Morro bay has always been the lowest paying municipality in the county. Keep your professionals who are certified by the state water board and who are the most responsible for public health, water and wastewater. Increase revenue by selling all city properties that are not in use. Parking meters are too expensive to implement and maintain. Carpooling programs for our employees would be nice. I feel that the city needs to ditch the rec center in front of the high school. The employee turnover rate is huge. Just look at PD. Money can be saved just like we do at home. Only spend for what are the bare necessities. The recession is here and we employees are having to face your problems in our homes as well. Cutbacks in non essential programs are a must. If I were to choose the most important divisions of this city it would be in this order. Water, Wastewater (because people get sick and die if either do not occur) then Fire for emergency protection. Farming Fire out to Cal Fire will cost more, no doubt. PD is a pork barrel. How many cops do we really need? Parks and Rec are the

least needed in hard times. The time to buckle down is now, however the cost of living is going through the roof and in order to maintain a professional workforce do not deny workers in the enterprise funds a salary adjustment because the general fund is broke. Otherwise the city will continue with its high turnover and low, uncompetitive wages.

- The City has a history of spending large amounts of money developing plans that are never followed. I would like to see this surveys recommendations followed but have little faith in the City's ability to follow it. The City should not be in the business of property management it has done very little with the properties it has taken over, only to put businesses out of business with a loss of tax revenue, good job! Allow new business with less building restrictions placed by the no change no growth Planning Commission. Recognize this town was built when the power plant and fishing industry were booming, fishing has decreased with little revenue, don't lose the power plant. Consolidation of city services may be a good option?
- Response Text
- Please keep in mind the needs of aging citizenry and use common sense...
- Make many programs self-supporting.
- Please consider the redevelopment agency. We must add a new revenue stream that we can count on.
- You didn't ask about reduce spending in all departments, i.e. harbor, wastewater, water. Is that because they are not general fund?

Does ""job reduction"" include job sharing and/or full to part-time? If not, include.

Negotiate potential lawsuits rather than jumping into lawsuits.

Mediate in house rather than use professional negotiator for city unions.

Be proactive rather than reactive with problems/issues/complaints.

Use more volunteers, or adopt-a-_____ in park maintenance, street tree planting/maintaining, clerical work in offices.

- Measure Q funds SHOULD NOT be incorporated into the general fund or used for administrative costs
- Management Partners should carefully review all administrative functions and recommend to the City's Senior Management/City Council ways to consolidate some of these administrative positions. Any activity that is not mandated by law should be challenged to determine if it is still necessary. Outsourcing certain City functions to the private sector or another public agency (ex: Information Technology, remittance processing, emergency response call center) should be carefully studied.

The City's General Fund receives a little less than 10% of its revenue from the MBPP (\$500K CDF, \$250-350K Gas tax and \$100K property taxes). With the exception of the property taxes the future of this revenue stream is uncertain after 2012. If a new plant is built the City's finance's will no longer be an issue, however if the owners determine investing in the construction of a new plant does not make financial sense and the property is sold it will take a minimum of five years before any redevelopment project would start generating revenue for the City. To avoid a drastic cut in services the City should start to prepare for this "transition" period by increasing the General Fund's fund balance each year starting with the 2008/09 budget. I recognize that this will be very difficult now, however cutting 10% of the staff in 2013 will be a lot more difficult.

The City needs to become more proactive in developing non-tourism businesses. Currently there are a number of groups (with smart people participating) that are laser focused on tourism. The City needs to continue to support these groups, but it also needs to become very aggressive (financial incentives, ease of permitting etc) in developing ways to attract non tourism enterprises to start up or relocate to Morro Bay. Base on comments I have heard over the last few years the City has a reputation for being a difficult place to establish a business.

- Favor combining jobs and/or departments to avoid duplication of work wherever possible.
- Recruit companies that provide employment-light industry.
- Some services and decisions the city alone can provide. Other important services and actions may be done more cost effectively by outsourcing or sharing.

The basics, the roads we travel, the life-safety issues of fire and police and safe streets to drive are critical to maintain, but I think people would understand differing staffing or outsourcing models, especially if existing staff were gradually replaced by other models.

People are a resource. Paying a living wage is a moral issue.

Infrastructure that works costs money. Fees have long been too low. People understand rising cable bills, cost of living increases, but expect the city fees to stay the same. This is obscene, as it subsidizes some from the payments of another. Means testing is possible. The new fees for building permits were half what they should have been, which means the wealthy developer and builder is subsidized by the taxpayer.

- Morro Bay's most viable remaining industry is tourism. To attract successful small businesses and the visitors who patronize them should be our highest priority. The Chamber is doing a fabulous job developing events, but the community must remain the kind of town that people want to visit--including neighborhood parks, and a charming home-town persona. As far as I can see our police, fire, and harbor departments are doing a very adequate job (I never hear about tragedies related to our service people not arriving at a fire or medical emergency in a timely manner)--but I do not see the need for new vehicles every year, especially SUV's for a police department in such a small town. Unless of course they are necessary to navigate the potholes....

ATTACHMENT C - EMPLOYEE FOCUS GROUP RESULTS

Below is the verbatim write-up of responses to focus group questions which were written on flipcharts. The flipcharts from all six focus groups were combined by question and are noted verbatim below and have not been edited for content.

Question 1: From a spending and revenue standpoint, what works well in Morro Bay and should not be changed?

- Police – Reciprocal Agreement with other cities
 - ~ No need to hire temp officers for events
 - ~ Save in OT Costs
- Mutual Aid for fire service
 - ~ Cost sharing with other agencies
 - ~ Also mutual aid for all agencies
 - ~ Particular to emergencies
- Wastewater plant agreement (could be improved for more money)
- Enterprise fund for water/wastewater
 - ~ Self-sufficient (but could work better)
- Cost Allocation Plan for enterprise funds
 - ~ Well represents tasks for G.F. – variances not as successful after changes – full costs not absorbed
- APOC contract with county provides for paramedic fee recovery
- Agreement with Office of Emergency Services (State), allows for use of a fire engine for response to State emergencies. Costs reimbursed at high level
- PW agreement for mutual aid with county and local agencies
- Measure Q funds – work well for fire
- Enterprise funds – fewer subsidies
 - ~ Wastewater
 - ~ Water
 - ~ Harbor/staff size = efficient
- Police and Fire provide a good level of service (but North Morro Bay is underserved)
- Fire department mutual aid system
 - ~ State engine use, plus calls are reimbursed
- High level of service across departments given the amount of resources (some people are under-utilized at City Hall)
- [Residents have an audience – not necessarily a good thing]
- Disaster response for all employees →SEMS
 - ~ Required by law
 - ~ Morro Bay is ahead of other cities
- Administrative citations
 - ~ It's personnel dependant
- Measure Q revenues (for fire department) need improvement for other departments
- Impact fees for development – revenue enhancement study which led recommends and actions others were not pursued or not as much as recommended
- CDBG and CalHome better utilized per capita within county
- No debt in general fund

- Assets include reserves
- Securing water allocations for community
- Amount of Parks and open space (and maintenance)
- Form of government → City Manager is effective
- Department heads getting better at working together. Overall supportive environment
- High level of service considering the salaries – cost effective
- Ten to 20 year history
- Started raising some fees – Don't reduce FD and Harbor PD and Harbor FTE's
- Harbor funding of Enterprise Fund works well – less general fund support
- Employees like working in Morro Bay (most cannot afford to live within, other locations pay more and are more affordable)
- I don't know
- Everything works as well as it can with what we've got
- Employees providing services without resources
- Strong crew at wastewater treatment facility → shouldn't be outsourced
- Get creative everyday to get work done but not much more give
- Good crew exchanges to help departments
- Local pride in doing jobs well
- Strong records to prevent spills in wastewater with current crews
- New hires and "new blood" in department and within City
- Building permit fees – help subsidize Planning
 - ~ Development impact fees recently raised
- Housing programs bring in revenue for all of City
- Softball tournament raise fund from non-residents
- Property taxes (although out of City's control)
- Harbor is well-managed and helps bring other revenue
- Adult sports brings in good revenue and child care
 - ~ Good on cost recovery
- Business license fee
 - ~ Raised annually
 - ~ Low overhead
- TOT – 10%
 - ~ Now includes vacation rentals
- Room rental – weddings, activities
- Harbor leases
- (Need to educate employees about other department functions)
- Parks and Rec enrollment online – can be expanded to other departments. Allows more flexible for some but loses personal touch
- Electronic water payments (should expand to credit cards)
- Flexibility to be open to change
 - ~ Web-based file system for rec sign ups works well
- Personal Touch
 - ~ People get face-to-face service
 - ~ Personnel are very responsive

Items identified as needing improvement:

- Lack of leadership
 - ~ City Manager
 - ~ City Council
- Council has ignored revenue sources as they went away
- City has not engaged in enough preventative maintenance

- Safety issue potentially could result from less staff

Question 2: If you had to find ways to save money for the City, what would you recommend? Where can the City save money without negatively impacting our customers?

- Investigating fire consolidation with neighboring agencies (already in progress)
- Example of dead tree removal which required outside consultant/contractor to define need to remove – more trust in staff
- Single code enforcement officer – many departments inspect and can overlap work
- Common complaint database to centralize and double check before issuing duplicate work requests
- Combining departments → Fire and Harbor, Police and Harbor
- Facilities for Harbor and City can be combined
- Combine Water and Wastewater Enterprise
- 3 counters with the city
 - ~ City Hall
 - ~ Public Services
 - ~ Recreation and Parks
 - ~ Police Fire and Harbor have counters as well
- Reduce services requests from the City Council
 - ~ Time involved chasing down requests
 - ~ Outsource some tasks (fire)
 - Maintenance, cleaning
- Abandon the idea of having a fourth trolley
- Council and Administration often pull away from a decision they already made
 - ~ Lots of micromanaging
 - ~ Let us move on with our tasks, they could get back to city business
 - ~ Trust staff
- Fees for service are not accurate (e.g. negligence involved in emergency response)
- Better informed decision makers so they can understand true costs
- Decisions are not prioritized properly
 - ~ Better business sense means spending time on higher value topics
 - ~ One counter for entire City
- 100% cost recovery for tasks (development review, development impact fee, General Plan review, Parks & Recreation, Trolley) [Employees not always given opportunity to contribute to the discussion of true costs of services/equipment]
- Support/Trust/Empower staff
- Communication from bottom of organization up - to present good ideas
- Retention issues – salary is low and there is little trust or empowerment by policy makers
- Strategic plans not followed
- Deferred maintenance will be costly
- Staff has longer term perspective than City Council or city residents
- Code enforcement: Consider contracting with the County
 - ~ e.g. part-time contract would be with a highly capable staff
- No succession planning in Finance or HR
 - ~ Many irreplaceable staff, little redundancy
- “Friends” interest groups (Police and Fire) don’t benefit the City as a whole

- ~ However, they're a non-profit that can make donations and frees up dollars for the general fund
- Daytime Council meeting would reduce time spent on public comments
- Outsource IT functions – to keep knowledge up-to-date in technology – no time for training – can't meet all needs and currently there is only one FTE – if he leaves, there is a high risk of lost knowledge
- Training overall (cross-training value for Public Safety helping with Harbor)
- Renegotiate Wastewater service agreements with neighboring cities
- (Parking meters – add this concept to the list of revenues)
- Economic development
- Tension with desire to stay a small community
- Taking action to do it
- Lack of strategic plan – goals, plans and consistency/staying on plan – make decision and then change
- Trust in employees to accomplish goals
- PD, FD, Harbor all have code enforcement often on same project – could have one “hub” (also lack of training – citation process)
- Process by paper – almost no automated, but is investment to automate worth it? (FD) STREAMLINE
- Planning Department: use of paper – why not automate?
 - ~ Storage of records
- Purchase requests/training for Finance to cut a check – Admin time to communicate with Finance
- City Council doesn't use facts to make decisions
 - ~ Leads to CC hiring City Manager without authority
- Planning process inefficient because City Council reconsidering decisions/issues after independent/professional planner made recommendation
- Micromanagers – City Council
- Individual City Council priorities → inefficiencies result when small items are debated at length, leaving bigger picture items behind
- Use ambulance service agreement funds
 - ~ Currently go into general fund budget, should go into FD budget
- Other examples in other department throughout City (impound fees, parking tickets)
- Lack of City long term plan
- Citizens drive planning – General Plan – of city “so much” that Plan is not followed – no coherent priorities – this leads to the tax base not meeting service levels
- Planning process deters development/increasing the tax base
- City has vacant properties which they won't lease/sell → been approved in the past
- Trolleys
 - ~ Another new trolley?
 - ~ Building a storage facility for the trolley – additional cost
- Outside firms are hired too often – save that \$ for other city business
- Council needs to not pre-determine their actions. “Don't confuse me with the facts”
- Policy makers is their role, which they confuse with implementation
- Planning and building process very wasteful on staff time, including other department heads
- Create competition amongst vendors to get lower bid – used successfully
 - ~ Should expand to other departments
- Research purchasing opportunities independently and save money and/or receive more quickly

- Improved storage could allow for more/larger bulk purchases and save money and time
- Have had micromanagers in past → without is more efficient, crews are proactive now
- Public safety expenses from General Fund – strong unions
- Trolley
- Roll-off truck for multiple uses
 - ~ Make personnel more efficient
- Safety issue with builders – facilities – (wastewater main shack) overall infrastructure
 - ~ Department heads, CM, City Council won't approve repairs
- Locally MB has purchasing roadblocks – e.g. toilet paper = 8K per year
 - ~ Local producers make for a slow process
- Misappropriation of funds
 - ~ \$3K = magazines for fire (budget line item)
 - ~ \$ for 2 new Camrys for the Police Chief
- Old, unsafe (e.g. 30 years old) equipment
- We could go to hybrids on some vehicles – don't need trucks
- Solar panel opportunities
 - ~ Would cut our energy budget
- Infrastructure issues = costly
- Mutual aid agreement hits after first 24 hours (FD)
- FD takes two engines for medical calls – why not one?
- Relationships between departments, when strained by personality differences, can make inefficient
- Lack of follow-thru after previous studies of still “discussing”
- Narrowed scope of work for classifications. No training classes → but new equipment enhanced training to increase productivity and prevent outside contractors
- Savings on utilities in City-owned buildings. Energy audits, with long-range review
- Council doesn't take staff recommendations
 - ~ Micromanages
- Council spends time on unimportant things
 - ~ Water bottles
 - ~ Plastic bags
 - ~ They don't think about the impact to programs
 - ~ City Attorney hours spent on resolutions
- Utilize existing property holdings
- Let us do our jobs – fewer calls from the City Council
- City Hall does central deposit for all departments
- Departments overlap in some activities which could be centralized – consolidation
- Code enforcement → undefined responsibility after code enforcement officer was cut → public doesn't know who to talk to – creates multiple requests
- Possible activities which City pays outside vendors to do which could be in-house e.g. tree service (non-emergency)
 - ~ On other side, employees are sometimes asked to complete tasks for which they are qualified but may not be efficient
- One IT Tech for entire City
- Number of qualified personnel is lacking
 - ~ One facility maintenance/electrician
- Coordinate water tasks
 - ~ People get bounced back and forth
- Consolidated purchasing

- ~ 5 different people purchasing
- ~ Would end up paying less
- ~ Duplication of effort
- Setting priorities
 - ~ Council meeting → changing priorities biweekly
 - ~ Makes for confusion, less productivity
- Anthony's restaurant has been empty for 4 years
 - ~ Multiple properties by which the City could make/save money
 - ~ Trailer park is another example

Question 3: From your knowledge of the existing City budget, are there any areas you can think of for which the City could shift expenditures to increase money available in the General Fund?

- RDA funds established → increase tourism → more money for general fund
 - ~ Bring in a convention center
- Better unity within the business community
 - ~ More cohesive advertising for the city
- Budget process and requirements is inefficient – too detailed (improvements with new Finance Director)
- TOT raise to fund visitors bureau instead of general fund
- Harbor sharing more costs – general fund
- Group contributions to dispatch center
 - ~ Not just public
 - ~ Enterprise fund could share in cost of this
- City Council does not read the line items, and they should
- So much is already taken out, the concept is maxed out
- We need clarification on the budget decisions
 - ~ Some money is “found,” then is manipulated
 - ~ General Fund needs to be recession-proof
- You can't spend your way out of debt
 - ~ Council makes poor spending decisions
- (Need to educate employees more about budget, funds, etc.)
- (departmentalized City so don't work as one unit – help to work together) “Need to learn how to play together”
- Prior cost allocation plans may not cover all services provided now → revisit to see if more funds can be shifted

Question 4: What are some ways in which the city could take advantage of new or increased sources of revenue?

- Update lease fees/rents
- Building maintenance charge-back system
- Fees were increased at some level but could increase
- What is level of service City should provide?
- Towing fees are lowest in SLO County
- TOT on camping spaces
 - ~ Sometimes there are no open spots, so they will park in illegitimate spots → produce more spots for more \$

- Review every department's fee schedules
 - ~ Not well-supported at council level
- Need to move past reliance on the power plant \$ - other fees are not up-to-date
- Redevelopment opportunities/downtown
- Charge property owners for issue related to weed abatement/blighted
- Utilize properties to help general fund → summer campers without space could use some public spaces and generate fees.
- Parking meters – parking lots, especially in summer
- Turnover in property tax rolls
 - ~ allow for development →
- Examine all municipal code violation fees
- Convert (Anthony's restaurant) space to city-owned convention center and raise revenue
- Create launch fee (assist with enforcement) decrease blight in area
- Increase Harbor fees and expand some
- Concern that community will not accept fee increases
- Opportunity to add fee for false alarms
 - ~ Fee present but not enforced – issue of personnel – trained personnel to enforce
- Improve wastewater plant agreement
- 100% cost recovery
- Ambulance transport
- Utility excise tax
- Increase parking citation fees/meters
- Convention center development
- Public safety parcel tax (feeling some community support)
- Renegotiate RV park contract with management
- Tear down power plant and build casino
- Requiring property owners to main sidewalks
- Citywide lighting/landscaping districts and for other services
- Liquidate surplus property – leasing space – developing property to create tax base
- More employee (rank and file) involvement—they often have good (money-saving) ideas. Would encourage more ownership; possibly retention
- Charge for street sweepers
 - ~ Property owners
- Start outsourcing
 - ~ Landscape maintenance, custodians
 - ~ Do it smartly
- Increase use of volunteer groups or Nonprofit organizations
 - ~ e.g. Lion's Club maintains meeting hall; volunteer group maintains a park
- Use of volunteers for some services (e.g. locking restrooms at night)
- Public safety parcel tax and other services – Measure Q for public safety may not be politically feasible
- Clerical person dedicated to cost recovery (within all departments) → is there a breakeven to justify? Less opportunity within FD (but example: assistance within retirement communities)
- Concern about asking FD to develop ideas to generate revenue → service to community minimal opportunity to recover costs of service
- Code enforcement eliminating blight can lead to community which draws investment
- Need to adapt community resistance to growth to raise revenue and cover loss of power plant revenue

- Little efficiencies won't fix problems – need larger solution → development, building the City
- Parking meters on the waterfront
- Day camps – daily use fees
- Overflow at campgrounds
 - ~ Charge for spaces
- Take over the state parks that the state is going to close
- RV park – City-owned (Morro Dunes) only getting a percentage of the earnings
- Power Plant modernization
 - ~ Projected \$2M per year for 20 years
- Morro Dunes RV Park – could have taken over
- Master fee Schedule no longer pegged to CPI – incremental increases instead of every few years – more acceptable to citizens. (concern about parks may not fit) exceptions may not always be heard
- Sale of city-owned properties – Anthony's, etc.
- Pursuing state/federal monies → lobby for more reimbursements
- Develop Casinos
- Finish power plant
- Transition power plant to amusement park, aquarium, museum
- Adapt harbor for cruise ships
- Conference center at power plant
- Paintball park
- Embarcadero employees should not park where the visitors need to be
- Charge for parking
 - ~ Costs may outweigh revenues
 - ~ Event-based parking fees
- Support sport fishing more
 - ~ Tournaments
- Partnerships with other cities to gain funds (e.g. get a lobbyist with Pismo)
- Bowl entertainment complex
 - ~ e.g. Santa Barbara
- Eco adventures
- Remove managers' car allowance
- Sell/rent fires station housing when they move
- Education of Council
 - ~ They don't take advantage of the opportunities for big revenues
- Morro Dunes = \$500 K per year
- Convention center
- Permit fees increased
 - ~ Look at all fees to bring up-to-date
- Get past the "fishing village" mentality – can't keep Morro Bay stagnant
- If eco-tourism is emphasized, come up with a way to bring in more money
- Upgrade Aquarium
- Teen activities
 - ~ They all go to San Luis Obispo
 - ~ Starbucks, Movies, Restaurants
- UUT – Utility User Tax
 - ~ Not popular
- Public Area Use permits
 - ~ More aggressively seek revenues from these events
 - ~ We bill for actual costs, not full reimbursement

- 911 fees
- Develop appeal fees locked flat fees by City Council
- Doesn't represent full cost recovery and planning fees on waste
- Fee study for entire City
- Revisit those interest groups who have lowered fees
- Business license fee – currently flat fee
- City control of Morrow Dunes RV park – could raise revenue
- Creating RDA
- Examine workload of FTE's – possibly combining of positions (Finance – City Hall)
- Bring back roller rink: currently vacant
- Create fisherman's museum → cultural center
- Barge casinos in harbor
- Quarter-cent sales tax increase
- Enforce TOT "Bed Tax" on vacation rentals
- City-owned properties = could sell
- City-owned campground
- Charge motor homes in public spaces during busy times
- Balance of not deterring tourism
- Power plan conversion to casino
 - ~ Promote with Native American cultural center
- Redevelop downtown – revitalization
- Create new tourism draw (especially after drop in fishing)
- Community promotions budget
- Administration citation/code enforcement
- Not cost effective at current fine level
 - ~ Process requires a written warning and fine on second offense (cost of collection also high)
- Efficient energy use
 - ~ Light bulbs, motion sensors, double-paned windows
- Less outsourcing of things City employees can do
- Re-use of Anthony's – maybe sell property
- Can't depend on one-time-fixes
- Attract tourists: upgrade visitor accommodations, convention centers
- Have something to do – restaurant- at the Rock – coming, seeing, leaving
- Convention center or Casino at Power Plant – educate City Council to be open to ideas previously not considered
- Attracting more events (like Avocado festival, softball tournament)
- City Council needs to recognize need for new identity of City – broaden their view
- Examine if festivals' fee are full cost recovery
- (barriers: Coastal Commission)
- Utilize vacant buildings – Economic Development
- Encourage businesses to stay open later, especially restaurants – need to cater to tourists who expect businesses open
- (Urgent care facility)
- Development of better facilities/services to attract new residents
- Redevelopment Agency
- Parking meters – requires upfront investment
- Could taxi service create revenue?
- Shuttle for airport to bring in tourists
- Parking structure below Anthony's

Question 5: Are there any areas where the City could reasonably eliminate or further reduce services in order to reduce costs?

- Trolley?
- Eliminate the Asst CM (we're already pretty lean)
- Hire a good lawyer
 - ~ Navigation of requirements (e.g. NPDES)
- Parks and Rec
- Police and Fire
- Disincorporation
- Any service can be cut, if you think about it
- Contract all services and save on PERS
- Eliminate Dial-a-ride
- CalHome and CDBG grant coordinator
- Examine difference between community priorities and CC priorities
- Assessment districts
- Maintenance workers in Parks and Facilities – potential consolidation?
- Contract out fire to CAL FIRE and Police to County Sheriff
- Top-heavy
 - ~ Cuts are always at the bottom
 - ~ The ratio is not balanced
 - ~ Invert the pyramid
 - ~ More fairness in cuts/3 years ago, layoffs → raises for the managers
- Instead of personnel cuts, look at budget line items, non-personnel expenses
- Combine some department needs

Question 6: Overall, what would you most like to see done to help the City resolve its budget issues?

- City Council get in touch with the actual costs of services and maintenance
- Join with other cities to recover \$ that are traditionally for cities
- Focus on the employee
 - ~ The #1 asset
 - ~ Recruitment and retention
 - ~ Antagonistic attitude toward employees
 - ~ Get to know us/our issues
- Clear direction for the top
- Consistency from year to year
- Financial planning 5+ years instead of year to year → New city manager give opportunity for City – away from micromanaging and city council influence – lead not manage (reduce time spent responding to citizens)
- Enterprise funds salaries tied to general fund/full city salaries/benefits = retention issue can give raises because general fund even though they can afford
- Employees don't expect/ask for top County salaries – want comparable compensation
- Rate increase cannot lead to pay increases
- City manager in touch with departments (City Council too)
- Prioritized budget issues for discussion
- Action take as result of this process
- Enhance revenues should be the #1 priority

- Fishing industry revitalization
- Long term planning follow-through
 - ~ Council has 2-4 year vision
 - ~ Challenge for the new City Manager
- Corporate sponsorships
- Power plant vision for decommission
- Casino? – Cruise industry
- Shopping Center/Auto Mall?
- Retail development – Economic development
- Business development
- Community expectations for service don't meet current revenue and community not open to new revenue ideas
- Providing new services without new revenues
- Goals and priorities from Council to help keep city on track
- New City Manager challenge to implement plans – handle ever-changing Council decisions/priorities
- No single solution – many different elements to solve problems
- Retention and recruitment as result of low (in comparison) within County
- Bring more tourism activities (resort/spa) and convention center/hotel space
- Build uniqueness of City to draw people to City
- Tension with parts of community who don't want change → e.g. no growth
- Adapt Harbor to recreational marina because of drop in commercial fishing
- Reduce consultant fees and number of studies used to make decision
- Some control over City Council spending and fiscal decisions
- Property values dropping
- City Council decisions made too late or take environmental considerations over others
- Increase retail → “big box” used car lots
- Fiscal responsibility among the council
- Where are the additional property tax revenues? New homes are all over \$1M
- New power plant construction
 - ~ Better than renovation
 - ~ New jobs created
- Address turnover
- Downtown entertainment, revitalization
- Corp yard partially owned by neighbor city and maintenance down because don't get help from other city
- No industrial area for businesses
- Need growth: building homes and businesses (near build-out) in-fill development
- Develop entertainment
- Develop night clubs
- Develop retail option for tax base
- Planning for good retail → fill-in vacant spaces to create retail development
- Create pedestrian walkway
- Eliminate stop signs on Morro Blvd – deters visitors
- Develop recreational opportunities on harbor
- Create festivals and destination
 - ~ Crafts, etc.
- Focus on revenue development that doesn't require incentives from City – make opportunities for businesses to come in
- Concern that if cut will also reduce revenues

- Examine level of service for Parks maintenance and what community expects
- Overtime examined for each department
- Bring MOUs/benefit structures into discussion of reductions
- Keep vehicles long in some instances
- Stay within their budgets when they're set
 - ~ Stick to the approvals, unless there is a true emergency
 - ~ Long-term planning and goal-setting
 - They never stick with what they initiated
 - We couldn't tell you what the Council's current goals are
- Stop mid-year budget expenditure not previously budgeted for – fluid process
- (Consider maintenance costs when making capital decisions)
- All departments should pursue grants
- Make sure employees are being fully utilized
- No layoffs
 - ~ Potentially look at ways to consolidate as people leave
 - ~ Could result in more people able to perform certain services e.g. streets department
 - ~ Re-evaluate positions as they become open
- Vehicle allotment should be 1 person's job
- Council spend some time in departments
- Close business office on Fridays (County already does – currently 9 – 80)
- Increase energy efficiencies
- Cross-training (reduces compartmentalization of departments)
- Pool some services/activities and use at different times/purposes
- (Think more as a city and work together)
- Respect and appreciate employee → retention – savings from less turnover
- Replace cars to hybrid – long term gas savings

Additional General Comments

- Department heads often filter (or interfere) with communication. Develop ways to enhance upward communication
- Adopt policy of fiscal responsibility and infrastructure priority over “non-essential” services
- Employees are too few and have plenty of duties. Bottom line is Morro Bay requires more needs than their revenues can meet
- Less politics—more business sense!
- A plan to hire more fire fighters will be presented during this upcoming budget planning process. This is NOT a prudent expenditure of funds at this time (despite the conclusions and recommendations of the Hunt report aka 5 year Strategic Plan).
- A code enforcement office for the City would be a better expenditure of funds. Annual amount potentially involved: \$160,000-\$320,000
- Borrow equipment from County—loan back to them
- Too many consultants—rely on staff
- Yet another trolley!?
- Council and leadership development!
- Bring in revenue immediately
- Staff is smarter than the Council
 - ~ We know what needs to be done
 - ~ They should listen to staff

- ~ They think they're progressive
- ~ Change averse/status quo
- ~ How do you educate the Council?
- Departments should understand that the City is a business – we should charge appropriately when able
- Long term community development plan – doesn't require big growth (lack of community understanding)
- Community group = Vision Plan, lack of follow-thru
- FD join State – Cal Fire: larger agency, better compensation (retain and attract) currently being studied able to cover more staff hours with less people. (Could save City money while maintain jobs for current FD)
- PD contact with County would have large impact on level of service – large area already covering
- Maybe department heads should be more active in communicating to City Council about concerns
- Cutting services is “the easy way out” for City Council instead of raising revenues
- Employees “driven” to be negative because of cuts and lower pays
- Feasibility study for boat yard previously done proved not to be economical, but the project has gone forward – plans developed. (Where is feasibility study?)
- Who follows through after this report comes out?
- Holding off on hiring new City Manager until plan completed is preventing process to solve issues
- City Council not open to hiring a City Manager from outside with new ideas – they feel they already know what's best for city → don't like change = don't understand need to grow → they work only on their own agendas
- Past management also not educated/communicated actual financial situation of City → lack of ability to City Council to understand also factor
- Consolidate Harbor and Fire
- Allow businesses to come in
- Liquidate some reserves – moving some assets
- City Council micromanaging and not allowing employees to do jobs – trust employees have city's best interest
- Change Department Head vacation cap from 440 to 220 hrs/yr—unfunded liability while others have been cut